THE FREEMAN

IDEAS ON LIBERTY

Lafayette: Hero of Two Worlds

Discovery and Economic Freedom

Competition and Cooperation

The Perversity of Doing Good at Others' Expense

SEPTEMBER 1997

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Announcing the 50th Anniversary Edition of FEE's All-Time Bestseller

The Mainspring of Human Progress

By Henry Grady Weaver
New Introduction by John Hood*

FOR SIX THOUSAND YEARS PEOPLE DIED OF HUNGER.
WHY DON'T WE?

This is the basic question dealt with in MAINSPRING.
But the attempt to find the answer leads into a wide range of subjects, such as:

- What is the greatest of all our modern inventions?
- Who invented zero (0) and why?
- Just what is the difference between a republic and a democracy?
- What simple invention contributed most to our national wealth?
- What was the "bestseller" in 1776?
- Is there one sure-fire formula for personal security?

In MAINSPRING, *Henry Grady Weaver answers these and countless other questions with a truly bold narrative, while taking you on a fascinating journey through history to trace and thus identify—*

THE MAINSPRING OF HUMAN PROGRESS

*President, The John Locke Foundation, and author of *The Heroic Enterprise: Business and the Common Good* (Free Press, 1996)

Published by
The Foundation for Economic Education, Inc.
30 South Broadway, Irvington-on-Hudson, NY 10533

ISBN 1-57246-064-4 • 272 pages • paperback $12.95
Printed in larger type for easy reading.
Visa and MasterCard orders: 1-800-452-3518

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

September 1997 Vol. 47, No. 9

THE FREEMAN

IDEAS ON LIBERTY

FEATURES

525 **The Perversity of Doing Good at Others' Expense** *by Dwight R. Lee*
The destructive effect of government transfers.

529 **Competition and Cooperation** *by David Boaz*
Essential elements of the simple system of natural liberty.

532 **Discovery and Economic Freedom** *by Daniel B. Klein*
The role of the unexpected in economic advancement.

538 **Yes, Virginia, There *Is* a Free Lunch** *by William H. Peterson*
But you can't eat your cake and have it, too.

543 **Guardians of the Constitution or Watching Out for Their Own?** *by Daniel J. Pilla*
Are a federal judge's constitutional rights more sacred than those of an average citizen?

547 **Federal Government Growth Before the New Deal** *by Randall G. Holcombe*
The surprising origins of government expansion.

555 **Market-Based Environmentalism vs. The Free Market** *by Roy E. Cordato*
Why incentive-tampering should be viewed with suspicion.

558 **Mises's Legacy for Feminists** *by Wendy McElroy*
Class analysis within the framework of individualist thought.

563 **Special Announcement**

564 **Lafayette: Hero of Two Worlds** *by Jim Powell*
An apostle and defender of liberty.

COLUMNS

Center *NOTES from FEE*—**The Nanny State** *by Donald J. Boudreaux*

541 *IDEAS and CONSEQUENCES*—**Government and Disaster Relief** *by Lawrence W. Reed*

553 *POTOMAC PRINCIPLES*—**Military Follies and Memorial Day Memories** *by Doug Bandow*

576 *ECONOMICS on TRIAL*—**Getting Published—An "Austrian" Triumph** *by Mark Skousen*

DEPARTMENTS

522 **Perspective**—Sheldon Richman

579 **Book Reviews**

•**Poor Policy—How Government Harms the Poor** by D. Eric Schansberg, reviewed by George C. Leef; **The Concise Conservative Encyclopedia** by Brad Miner, reviewed by Aaron Steelman; **The Diversity Machine: The Drive to Change the "White Male Workplace"** by Frederick R. Lynch, reviewed by Brad Stetson; **The Conservative Intellectual Movement in America: Since 1945, 2nd edition** by George H. Nash, reviewed by Robert Batemarco; **The Young Entrepreneur's Guide To Starting and Running a Business** by Steve Mariotti, reviewed by Richard A. Cooper.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
E-mail: freeman@westnet.com
FEE Home Page: http://www.fee.org
President: Donald J. Boudreaux
Managing Editor: Beth A. Hoffman
Guest Editor: Sheldon Richman
Editor Emeritus
Paul L. Poirot
Lewisburg, Pennsylvania
Book Review Editor
George C. Leef
Adjunct Professor of Law and Economics, Northwood University
Editorial Assistant
Mary Ann Murphy
Columnists
Doug Bandow
Cato Institute, Washington, D.C.
Lawrence W. Reed
Mackinac Center for Public Policy Midland, Michigan
Mark Skousen
Rollins College, Winter Park, Florida
Contributing Editors
Charles W. Baird
California State University, Hayward
Peter J. Boettke
New York University
Clarence B. Carson
American Textbook Committee Wadley, Alabama
Thomas J. DiLorenzo
Loyola College, Baltimore, Maryland
Joseph S. Fulda
New York, New York
Bettina Bien Greaves
Resident Scholar, FEE
John Hospers
University of Southern California
Tibor R. Machan
Auburn University
Ronald Nash
Reformed Theological Seminary
Edmund A. Opitz
Chatham, Massachusetts
James L. Payne
Sandpoint, Idaho
Jim Powell
Westport, Connecticut
William H. Peterson
Adjunct Scholar, Heritage Foundation, Washington, D.C.
Sheldon Richman
The Future of Freedom Foundation
Jane S. Shaw
PERC, Bozeman, Montana
Richard H. Timberlake
University of Georgia

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.
Copyright © 1997 by The Foundation for Economic Education. Permission is granted to reprint any article in this issue, except "Lafayette: Hero of Two Worlds," provided credit is given and two copies of the reprinted material are sent to FEE.
The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of $30.00 or more receive a subscription to *The Freeman.* Student subscriptions are $10.00 for the nine-month academic year; $5.00 per semester. Additional copies of this issue of *The Freeman* are $3.00 each. For foreign delivery, a donation of $45.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

PERSPECTIVE

The "Right to Medical Care"

The idea of a right to medical care is so blithely tossed around that most people never take time to ponder the rather serious consequences that would flow from it. It is a classic pseudo-right. A pseudo-right is any claim expressed in rights language that would expand the power of the state at the expense of genuine rights.

The "right to medical care" is seductive. People not accustomed to dissecting political discourse will think of the benefits of having their medical services provided "free" or at a guaranteed affordable price. More sophisticated people may see the proposal as a giant insurance system and feel that there can be no danger in it. If all citizens pay and all have access to care when they need it, what could be wrong?

Well, a lot could be wrong. Let's start with something basic: for a right to be genuine, it has to be capable of being exercised without anyone's affirmative cooperation. The full exercise of my right of self-ownership requires you to do nothing except refrain from killing or assaulting me. The full exercise of my property rights requires you to do nothing except refrain from taking what is mine. You have no positive, enforceable obligations to me, apart from any you accept through contract.

That principle of nonobligation is an excellent test to which we can submit any proffered right. How does the right to medical care hold up? Leaving out self-treatment, it is difficult to see how there can be such a right. Medical care, unlike air, is not found superabundant in nature. It is produced by someone who spends resources to acquire expertise and education. It requires the use of instruments and drugs, which have to be manufactured by someone. Who is to provide these things? Does the provider have any choice in the matter? What if he refuses? Should he be forced? If

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

so, how shall we distinguish that person from an indentured servant or slave?

Since the "right to medical care" requires an affirmative obligation, it fails the rights test. Put simply, that "right" cannot coexist with the right to be left alone.

Implementation of the "right" does not typically entail forcing doctors, nurses, and manufacturers of medical instruments and pharmaceuticals to provide their services at gunpoint. So what I have said above may not seem germane. But it is, because although providers are not compelled, the taxpayers are. Taxation is somewhat less egregious than conscription, but it is still compulsion. Appropriating people's earnings is tantamount to appropriating their time and labor. Since the compulsion of taxation is spread across large numbers of people, it is less noticeable than the conscription of medical personnel. But it doesn't fundamentally change what's going on.

That is only the beginning of what's wrong with trying to enforce a right to medical care. Imagine for a moment a right to apples. That may sound nice, but an immediate problem arises. How many apples? Scarcity is the natural condition, which means that any given moment our wishes exceed the supply of the things we want. (Freedom and free markets have this knack for loosening nature's rather strict bonds of scarcity.) Declaring such a right would be an efficient way of emptying the shelves of apples. And let us ignore the significant question of who would produce apples if we all had a right to them.

We might decide to trust people to take only what they need. But that doesn't get us out of trouble. Even if we assume a population of considerate people, "need," in this context, is a subjective notion. You can probably live without apples; so in one sense, you need none. But if we expand the concept of "need" a little, we open the gates to endless disagreement over who needs how many apples. I may think I need many more than you. There is no way to resolve a dispute of that nature. Well, there is one way: the state can ration apples. We could trust the government to scientifically determine how many apples each of us needs. And if you believe that, you will also believe that the ruling party won't manage to get more apples than the rest of us.

Government control of apples might be no more than an inconvenience. Government control of medical care would be life threatening. Yet what is the alternative once a "right to medical care" is declared? There is no way all people can have all the medical care they wish to have if it is (that is, appears to be) costless. The government will have to decide who gets what. How many of us would take comfort in that?

Here is the crux of the issue. The right to medical care must mean—no exceptions—the power of government, in principle, to determine who gets what. It may not exercise that power immediately. But given the economics of the matter, it will, sooner or later. I submit that this has nothing to do with rights and everything to do with control, literally, of people's lives.

I do not exaggerate. A major ethical issue these days involves the "right to die," or the right to assisted suicide. That is overshadowing one that may be more consequential, the so-called "duty to die." Some years ago, then-Colorado Governor Richard Lamm argued that old people should know when it is time to quit this earth in favor of younger people. (The civil libertarian Nat Hentoff wrote recently that Lamm is, inexplicably, a devotee of exercise.) John Hardwig, a medical ethicist and social philosopher, has now picked up the cause of the duty to die. He writes that medical advances and an "individualist culture" may have many people believing that "they have a right to medical care and a right to live,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

despite the burdens and costs to our families and society." He adds that "there may be a fairly common responsibility to end one's life in the absence of any terminal illness ... a duty to die even when one would prefer to live."

For our purposes we need not address whether an old person should preserve his heirs' inheritance rather than spend it on medical care. At the moment, that is a private, not a political, matter of how one spends one's own money. (The inheritance tax could have consequences for such a decision.) What is relevant is how that ethical issue is transformed when government controls medical spending via "the right to health care." The Lamm-Hardwig line would be translated into a rather unpleasant public policy: the withholding of care for the elderly in the name of "making room" for the young. The government giveth rights; the government taketh them away. As a matter of public policy, might not the politicians and bureaucrats decide that heart transplants, knee replacements, and mastectomies for octogenarians are a waste of money? This sort of thing is not considered beyond the pale in the increasingly fragile welfare states of western Europe.

All of this is a rather roundabout way of identifying the worst aspect of the "right to medical care": the tethering of the citizen to the state. For all the criticism that is leveled at Medicare and proposals to reform medical care in general, too little attention has gone to that uncomfortable fact. If government controls medical spending, it controls you, including the very length of your life.

We may correlate the progress of mankind with the extent of its independence from the state. To put it mildly, national health insurance would be a setback.

Yet that is the direction in which we move. New regulations governing the portability of insurance policies and coverage of existing conditions all portend creeping comprehensive control. The newest cause, uninsured children, does the same. Ludwig von Mises explained why in his *Critique of Interventionism*. One regulation creates problems, which are used to justify the next intervention. For example, if Congress says mental-health benefits have to be equal to medical benefits, the cost of insurance will go up. That will then be the excuse to force young people who don't wish to pay those premiums to buy insurance. Next on the agenda will be price controls on doctors and insurance companies. When companies flee the straitjacketed market, the government will step in. This is not conspiracy. It's logic.

It all starts with an innocuous phrase, the right to medical care. Language is a potent thing. Let us handle it with care.

—SHELDON RICHMAN

Mr. Richman is this issue's Guest Editor.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

The Perversity of Doing Good at Others' Expense

by Dwight R. Lee

Assume your 45-year-old friend is critically ill and will die by tomorrow morning unless something extraordinary is done. Miraculously, it becomes possible for you to save your friend. But to do so you have to shorten the lives of all other Americans by a small amount. By taking away ten seconds of life from someone else, you can extend the life of your friend by five seconds. When this transfer is made from all 260 million Americans, he will receive approximately an additional 41 years and four months of life, thus achieving an enviable life span of over 86 years.

Will you use your power to save your friend? Almost surely the answer is yes. Will saving your friend be an act of virtue? The answer to this question is more complicated. Saving your friend's life will be widely perceived as a virtuous act, but a strong case can be made that it would be a harmful act of callous self-interest. The sharp contrast between perception and reality in this fabricated example is unfortunately relevant to the world of politics, and explains why organized interest groups can capture small private gains at great social costs through political actions widely seen as virtuous.

I readily admit that if a good friend of mine were desperately ill, I would save him by shortening the life of everyone in the general population by a few seconds if I had the power to do so. Although the gain in life for him would be less than the total loss of life for others, the gain would be dramatically visible, greatly appreciated, and easily associated with my act of "kindness," while the loss would be so diffused that it would go completely unnoticed. Even if the others were aware of their cost for saving my friend, a large majority of them would probably vote in favor of making their individual sacrifice (and obligating others to do the same) to extend his life, since that sacrifice was so low. We could all feel the warm glow of compassion over our virtuous sacrifice for the good of another.

There is a problem here, however. If it is so noble to save my friend's life by transferring a few seconds from everyone else, then it must also be equally noble to extend this benefit to others. But consider the destructive consequences of each of us having the power to add years to our best friend's life (which in most cases would be our own) by reducing the life of everyone else by a few seconds (but with the total life lost being twice that gained). With everyone trying to lengthen his or her life at the expense of others, the result would be an early death for everyone. Generalizing the earlier example of a two-second loss for a one-second gain, if everyone attempted to capture 41 years of additional life by transferring seconds from others, everyone would

Dr. Lee teaches economics at the University of Georgia.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

have his or her life shortened by 41 years. For someone my age this would, at best, mean instant death, and more likely a retroactive one.

So if the ability to extend one person's life by shortening the lives of others were immediately generalized to everyone, the consequences would be quickly recognized as disastrous. But if only a few had this ability initially, and it was expanded to more people very gradually, it would take a while for the harmful consequences to be noticed.[1] And probably people would be unaware of the connection between the reduced life expectancy of most and the longer life span of the few, the result being a clamor to expand the method prolonging the lives of the few. Even when the connection between the expanded transfer process and the ever-shortening life expectancy began to be recognized, no one would willingly cease attempting to benefit from the transfers. The person who unilaterally refused to transfer years from others to himself would lose twice the life expectancy as before, as others continued to transfer life from him to themselves. Of course, there might be a movement to stop the transfer process if anyone were left alive to initiate it.

But what if the destructive effect of the transfer process were masked by medical advances that caused a slight increase in life expectancy? Then the life lost because of the transfers might go largely unnoticed. Some would understand the harm being imposed by the transfers, but they would find it difficult to get people exercised by the loss of what they never had, which exists only in a counterfactual setting with which they are not familiar. Also, any attempt to get people to oppose the transfers faces a serious free-rider problem. Why should an individual incur a private cost in an effort that, even if successful, provides general benefits to everyone regardless of his or her contribution to the effort? For each person the advantage is in devoting the effort necessary to benefit from transfers, an effort that concentrates a benefit entirely on him or her, rather than in making the far less decisive effort to achieve benefits for the general public.

Real-World Transfers

Of course, my example of extending the lives of some by reducing the lives of others is fortunately a fanciful one. Unfortunately, it describes all too well the type of transfer that increasingly dominates the political process. The coercive power of the federal government to perform its few legitimate functions has always been a source of temptation for those who see the possibility of solving their problems through transfers from others. The case for yielding to this temptation is superficially appealing because government transfers could create concentrated and visible benefits for politically organized and appreciative groups while spreading the costs so widely that they go largely unnoticed.

Fortunately, for approximately the first 100 years after the ratification of the U.S. Constitution, the prevailing understanding was that the role of government was a limited one. Government was not intended to solve the problems of individuals; rather it was to establish a setting in which they could best solve their own problems in productive cooperation with each other. That view was exemplified by Grover Cleveland's 1887 veto of a bill passed by Congress to provide $10,000 to drought-stricken farmers in Texas. In his veto message Cleveland stated, "A prevalent tendency to disregard the limited mission of [the government's] power and duty should be steadfastly resisted, to the end that the lesson should be constantly enforced that, though the people support the Government, the Government should not support the people."[2]

Unfortunately, as Cleveland was vetoing seed bills, U.S. Supreme Court decisions began opening the door for increased government regulation of the economy.[3] Regulation, supposedly aimed at protecting the general public against abuse by business and other organized interests, is invariably controlled by those interests to reduce the competition they face. That amounts to a transfer from the general public to those being regulated, in the form of higher prices and a less productive economy. The growth of such transfers began rather modestly. Resistance to it was well entrenched, but the concen-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

trated benefits appeared larger than the diffused (but actually larger) costs. As the number of beneficiaries increased with little apparent cost, the case for including more beneficiaries seemed compelling. Even when the costs of government transfers were noticed, they were seldom associated with the transfers that caused them. Indeed, the costs created by the transfers were commonly cited as problems that justified government solutions in the form of yet further transfers. The most egregious example of hoping the cause can be the cure was the expansion of government control in response to the depression of the 1930s, a depression prolonged, if not caused entirely, by a combination of federal tariff increases and Federal Reserve mismanagement of the money supply.

Soon government transfers were going beyond protective regulation and increasingly taking the form of direct payments and subsidies. In 1900 the entire federal budget amounted to only about 3 percent of the nation's GDP, with little of it devoted to transfers. By 1962 federal transfers to individuals (not including interest payments) amounted to 27 percent of federal outlays and to 5.2 percent of GDP. By 1993 federal payments to individuals had increased to 56 percent of federal outlays (85 percent when interest payments and national defense are excluded) and to 10.5 percent of the GDP.[4]

Noble Objectives

These budgetary transfers are almost always rationalized in the name of some noble public objective—helping the poor, protecting American jobs, saving the family farm, making the American economy more competitive. The reality is that the benefits from these transfers are concentrated primarily on organized interest groups and do little to achieve the noble objectives. Indeed, progress toward the goal is invariably retarded as the costs of transfers spread inefficiencies throughout the economy. Poverty programs have increased the number and dependency of the poor, trade restrictions and export subsidies have destroyed more productive jobs to save less productive ones, farm subsidies have done more to help large corporate farms than small family farms, and corporate welfare has hindered American competitiveness by subsidizing failure.

Those failures are rooted in the fact that, just as in my life-extending example, government transfers add less value than they destroy. Government transfers systematically reduce the productivity of the economy, productivity essential for solving the social problems the government claims to be addressing. The wastefulness of government transfers is inherent in the very process that explains them. Because the benefits of transfers are concentrated, they are magnified by the political process, while the dispersed costs are devalued. The result is that the political benefit-cost comparison continues to show gains from transfers long after the social benefit-cost comparison is decisively negative. The ratio of losses to gains from many political transfers is far larger than the 2-to-1 ratio assumed in the example of life-expectancy transfers. For example, in California taxpayers are paying for water-diversion projects that provide water at $212 per acre-foot to farmers who pay for it at a rate of $3.50 per acre-foot.[5] Or consider amendments to the Clean Air Act that protected Eastern coal producers against competition from Western coal by imposing scrubber requirements on electric generating plants to remove sulphur even if they burn low-sulphur Western coal. It has been estimated that this requirement costs electricity consumers approximately one dollar for every nickel it transfers to coal producers, not to mention the resulting reduction in environmental quality.[6]

Yet, attempts to point out the failure of an ever-expanding government role in the economy are typically met with complacency and often hostility. Again, as with the example of transferring life expectancy, it is easy to see the concentrated benefits from government transfers. It's even easier to ignore the generalized costs and see them as unrelated to the benefits. The economy, after all, has continued to grow. It would be difficult for anyone to know just how much greater that growth could have been, and most people are unaware of how costly even a slight reduction in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

economic growth is over time.[7] And even if people were aware of the general costs of government transfers, no individual would see the advantage in opposing them in general since the private advantage lies in getting more transfers for your group. Those who do suggest cutting back on transfers will encounter hostility from the beneficiaries, who realize that the amount they have to pay for the transfers to others is independent of whether or not they continue to receive theirs. Even many of those paying for a benefit going to others often respond negatively to advocates of reducing, or eliminating, that benefit because of its visible virtue and the lack of a detectable cost to any individual.[8]

The dynamic of government transfers is an insidious one that invariably leads to the disastrous situation Bastiat predicted: the state becomes "that great fictitious entity by which everyone seeks to live at the expense of everyone else."[9]

Both the fanciful possibility of helping some people with transfers of life from others, and the factual possibility of helping some people with government wealth transfers from others, illustrate the perversities that result when people attempt to do good at others' expense. Such attempts always give the appearance of promoting virtue while destroying the discipline and accountability that makes real virtue possible. □

1. I assume here that there is a strict limit on how much life can be transferred from others.

2. Quoted in Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987), p. 84.

3. Higgs discusses many of these decisions and their consequences in *ibid.* Also see Terry Anderson and Peter J. Hill, *The Birth of a Transfer Society* (New York: University Press of America, 1989).

4. These figures come from Herbert Stein and Murray Foss, *The New Illustrated Guide to the American Economy* (Washington, D.C.: The AEI Press, 1995), p. 212.

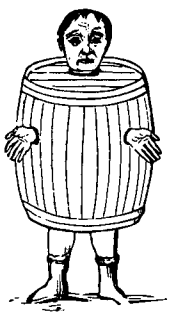
5. See Dennis C. Mueller, *Constitutional Democracy* (New York: Oxford University Press, 1996), p. 11.

6. See George Daly and Thomas Mayor, "Equity, Efficiency and Environmental Quality," *Public Choice*, vol. 51, no. 2 (1986): 141–59.

7. It should be noted that the larger government involvement in the economy, the more the official national income statistics overstate the national income. The growth in the private sector is determined by the amount people voluntarily pay for goods and services. Since there is generally no market for government-provided services, they enter into the national income accounts at the cost of providing them, which is almost always greater than their value. So GDP can, and often is, increased by government transfers that reduce the total value of economic output. To bring my example of transferring life expectancy in line with government transfers, the additional life one received from a transfer would have to be counted for more than it actually is.

8. Because the influence of any individual voter on a political decision to make a transfer is effectively zero, the opportunity cost of favoring a transfer is also effectively zero, even if the transfer is known to be individually costly. Therefore, if a person has been led to believe that a transfer is virtuous and he places even a modest value on the sense of virtue that comes from supporting the transfer, he will vote for it regardless of the personal cost if it passes. See Geoffrey Brennan and Loren Lomasky, *Democracy and Decision: The Pure Theory of Electoral Preference* (Cambridge: Cambridge University Press, 1993).

9. Quoted in George Roche, *Free Market, Free Men: Frederic Bastiat, 1801–1850* (Hillsdale: Hillsdale College Press and The Foundation for Economic Education, 1993), p. 150.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Competition and Cooperation

by David Boaz

Defenders of the market process often stress the benefits of competition. The competitive process allows for constant testing, experimenting, and adapting in response to changing situations. It keeps businesses constantly on their toes to serve consumers. Both analytically and empirically, we can see that competitive systems produce better results than centralized or monopoly systems. That's why, in books, newspaper articles, and television appearances, advocates of free markets stress the importance of the competitive marketplace and oppose restrictions on competition.

But too many people listen to the praise for *competition* and hear words like *hostile*, *cutthroat*, or *dog-eat-dog*. They wonder whether cooperation wouldn't be better than such an antagonistic posture toward the world. Billionaire investor George Soros, for instance, writes in the *Atlantic Monthly*, "Too much competition and too little cooperation can cause intolerable inequities and instability." He goes on to say that his "main point . . . is that cooperation is as much a part of the system as competition, and the slogan 'survival of the fittest' distorts this fact."

Now it should be noted that the phrase "survival of the fittest" is rarely used by advocates of freedom and free markets. It was coined to describe the process of biological evolution and to refer to the survival of the traits that were best suited to the environment; it may well be applicable to the competition of enterprises in the market, but it certainly is never intended to imply the survival of only the fittest individuals in a capitalist system. It is not the friends but the enemies of the market process who use the term "survival of the fittest" to describe economic competition.

What needs to be made clear is that those who say that human beings "are made for cooperation, not competition" fail to recognize that the market is cooperation. Indeed, as discussed below, it is people competing to cooperate.

Individualism and Community

Similarly, opponents of classical liberalism have been quick to accuse liberals of favoring "atomistic" individualism, in which each person is an island unto himself, out only for his own profit with no regard for the needs or wants of others. E. J. Dionne Jr. of the *Washington Post* has written that modern libertarians believe that "individuals come into the world as fully formed adults who should be held responsible for their actions from the moment of their birth." Columnist Charles Krauthammer wrote in a review of Charles Murray's *What It Means to Be a Libertarian* that until Murray came along the libertarian vision was "a race of rugged individualists each living in a mountaintop cabin with a barbed wire fence and a 'No Trespassing' sign outside." How he neglected to include "each armed to the teeth" I can't imagine.

Of course, nobody actually believes in the

David Boaz, executive vice president of the Cato Institute, is author of Libertarianism: A Primer *and editor of* The Libertarian Reader (both published by The Free Press, 1996).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

sort of "atomistic individualism" that professors and pundits like to deride. We do live together and work in groups. How one could be an atomistic individual in our complex modern society is not clear: would that mean eating only what you grow, wearing what you make, living in a house you build for yourself, restricting yourself to natural medicines you extract from plants? Some critics of capitalism or advocates of "back to nature"—like the Unabomber, or Al Gore if he really meant what he wrote in *Earth in the Balance*—might endorse such a plan. But few libertarians would want to move to a desert island and renounce the benefits of what Adam Smith called the Great Society, the complex and productive society made possible by social interaction. One would think, therefore, that sensible journalists would stop, look at the words they typed, and think to themselves, "I must have misrepresented this position. I should go back and read the libertarian writers again."

In our time this canard—about isolation and atomism—has been very damaging to advocates of the market process. We ought to make it clear that we agree with George Soros that "cooperation is as much a part of the system as competition." In fact, we consider cooperation so essential to human flourishing that we don't just want to talk about it; we want to create social institutions that make it possible. That is what property rights, limited government, and the rule of law are all about.

In a free society individuals enjoy natural, imprescriptible rights and must live up to their general obligation to respect the rights of other individuals. Our other obligations are those we choose to assume by contract. It is not just coincidental that a society based on the rights of life, liberty, and property also produces social peace and material well-being. As John Locke, David Hume, and other classical-liberal philosophers demonstrate, we need a system of rights to produce social cooperation, without which people can achieve very little. Hume wrote in his *Treatise of Human Nature* that the circumstances confronting humans are (1) our self-interestedness, (2) our necessarily limited generosity toward others, and (3) the scarcity of resources available to fulfill our needs. Because of those circumstances, it is necessary for us to cooperate with others and to have rules of justice—especially regarding property and exchange—to define how we can do so. Those rules establish who has the right to decide how to use a particular piece of property. In the absence of well-defined property rights, we would face constant conflict over that issue. It is our agreement on property rights that allows us to undertake the complex social tasks of cooperation and coordination by which we achieve our purposes.

It would be nice if love could accomplish that task, without all the emphasis on self-interest and individual rights, and many opponents of liberalism have offered an appealing vision of society based on universal benevolence. But as Adam Smith pointed out, "in civilized society [man] stands at all times in need of the cooperation and assistance of great multitudes," yet in his whole life he could never befriend a small fraction of the number of people whose cooperation he needs. If we depended entirely on benevolence to produce cooperation, we simply couldn't undertake complex tasks. Reliance on other people's self-interest, in a system of well-defined property rights and free exchange, is the only way to organize a society more complicated than a small village.

Civil Society

We want to associate with others to achieve instrumental ends—producing more food, exchanging goods, developing new technology—but also because we feel a deep human need for connectedness, for love and friendship and community. The associations we form with others make up what we call civil society. Those associations can take an amazing variety of forms—families, churches, schools, clubs, fraternal societies, condominium associations, neighborhood groups, and the myriad forms of commercial society, such as partnerships, corporations, labor unions, and trade associations. All of these associations serve human needs in different ways. Civil society may be broadly defined as all the natural and voluntary associations in society.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Some analysts distinguish between commercial and nonprofit organizations, arguing that businesses are part of the market, not of civil society; but I follow the tradition that the real distinction is between associations that are coercive—the state—and those that are natural or voluntary—everything else. Whether a particular association is established to make a profit or to achieve some other purpose, the key characteristic is that our participation in it is voluntarily chosen.

With all the contemporary confusion about civil society and "national purpose," we should remember F. A. Hayek's point that the associations within civil society are created to achieve a particular purpose, but civil society as a whole has no single purpose; it is the undesigned, spontaneously emerging result of all those purposive associations.

The Market as Cooperation

The market is an essential element of civil society. The market arises from two facts: that human beings can accomplish more in cooperation with others than individually and that we can recognize this. If we were a species for whom cooperation was not more productive than isolated work, or if we were unable to discern the benefits of cooperation, then we would remain isolated and atomistic. But worse than that, as Ludwig von Mises explained, "Each man would have been forced to view all other men as his enemies; his craving for the satisfaction of his own appetites would have brought him into an implacable conflict with all his neighbors." Without the possibility of mutual benefit from cooperation and the division of labor, neither feelings of sympathy and friendship nor the market order itself could arise.

Throughout the market system individuals and firms compete to cooperate better. General Motors and Toyota compete to cooperate with me in achieving my goal of transportation. AT&T and MCI compete to cooperate with me in achieving my goal of communication with others. Indeed, they compete so aggressively for my business that I have cooperated with yet another communications firm that provides me with peace of mind via an answering machine.

Critics of markets often complain that capitalism encourages and rewards self-interest. In fact, people are self-interested under any political system. Markets channel their self-interest in socially beneficent directions. In a free market, people achieve their own purposes by finding out what others want and trying to offer it. That may mean several people working together to build a fishing net or a road. In a more complex economy, it means seeking one's own profit by offering goods or services that satisfy the needs or desires of others. Workers and entrepreneurs who best satisfy those needs will be rewarded; those who don't will soon find out and be encouraged to copy their more successful competitors or try a new approach.

All the different economic organizations we see in a market are experiments to find better ways of cooperating to achieve mutual purposes. A system of property rights, the rule of law, and minimal government allow maximum scope for people to experiment with new forms of cooperation. The development of the corporation allowed larger economic tasks to be undertaken than individuals or partnerships could achieve. Organizations such as condominium associations, mutual funds, insurance companies, banks, worker-owned cooperatives, and more are attempts to solve particular economic problems by new forms of association. Some of these forms are discovered to be inefficient; many of the corporate conglomerates in the 1960s, for instance, proved to be unmanageable, and shareholders lost money. The rapid feedback of the market process provides incentives for successful forms of organization to be copied and unsuccessful forms to be discouraged.

Cooperation *is* as much a part of capitalism as competition. Both are essential elements of the simple system of natural liberty, and most of us spend far more of our time cooperating with partners, coworkers, suppliers, and customers than we do competing.

Life would indeed be nasty, brutish, and short if it were solitary. Fortunately for all of us, in capitalist society it isn't. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Discovery and Economic Freedom

by Daniel B. Klein

When an economist stands at the blackboard and draws a supply-and-demand diagram, he pretends he knows all the relevant opportunities. Economists must posit such settings to frame the story. When stories are given an exact formulation, especially when expressed in math or diagrams, they are called "models." A resolution in such a model is called "equilibrium." Models teach us much about competition, investment, and many other important topics in economics. But overexposure to models can impair our ability to see other important facets of economic processes. One begins to forget that there is so much that is *not* known.

Focusing on blackboard models limits our understanding of economic freedom. Economists focus so much on models like supply and demand, rather than on public issues, that freedom is understood only for what it achieves in such models. Equilibrium stories of price ceilings, price floors, and entry barriers lead us to think of markets as neatly characterized procedures, and of freedom as little more than the freedom to choose within these procedures. It may be the freedom of tenants to choose high-rent apartments, of laborers to choose low-wage employment, or of consumers to choose the services of unlicensed electricians. Because equilibrium stories posit the industry, the preferences, and the opportunities, all that freedom accomplishes is a more efficient utilization of given resources.

Economists rarely talk of discovery, imagination, or serendipity, and consequently they tend to neglect these as vital factors of economic progress. They often carry over their habits of mind to public policy. In consequence, they are insensible to the fact that government restrictions on freedom tend to choke off the vital discovery factors.

For example, the economist might think that in making policy for urban transit, government experts can, after much careful study, adequately determine the transit technologies and systems that would suit the city's needs, and then implement the system. I would dispute that approach, regardless of the particular transit system proposed. We shall return to the example of urban transit throughout this essay.

Freedom to choose among a set of given alternatives is but one facet of freedom. I will discuss three other facets of freedom. Each of them points to a kind of discovery.

Search and Respondence

As consumers we do not know fully what stores are offering or what prices they are charging. We need to gain information and

Dr. Klein is associate professor of economics at Santa Clara University. *This essay is a condensation of his article, "Discovery Factors of Economic Freedom: Respondence, Epiphany, and Serendipity," in* Uncertainty and Economic Evolution: Essays in Honour of Armen A. Alchian, *ed. John R. Lott, Jr. (London: Routledge, 1997). Reprinted by permission of Routledge.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

do so by searching. Searching takes time and trouble, but we learn more about the available alternatives.

In other cases, information simply comes to us without our looking for it. Perhaps by chance we encounter advertisements that alert us to valuable opportunities. Perhaps we get into a conversation and learn valuable information we hadn't been actively searching for. Then we revise our plans and respond appropriately to the new information. I call this experience *respondence*.

Whether the individual searches for information or simply receives it in the course of pursuing other goals, let's assume that the newly acquired information fits into his original plans or intentions. He now pursues his plans somewhat differently in response to the new information, but he does not change his basic interpretation of what he is doing.

Search and respondence are similar and are treated here together. Economists can incorporate both into their formal models. But search and respondence certainly complicate the model, and typically such complications are not worth the trouble. In practice, economists usually leave such features out of their storytelling, unless search and respondence are the very focus of their investigation.

Some economists explore the importance of respondence and freedom. They explore how uncertainty gives rise to economic practices that economists might otherwise have difficulty explaining—practices like queuing, order backlogging, second sourcing, and vertical integration. Ronald Coase has emphasized the importance of special opportunities and business idiosyncracies, such as "differences in the point of time at which payments are made and receipts obtained."[1] These points often show an appreciation for individuation (uniqueness) and uncertainty in local conditions, and suggest that infringements on freedom prevent proper respondence.

Unrestricted respondence carries not only a flexibility in making one's choices in isolation but also the freedom to form elaborate contracts that grant one flexibility in relations with others. Though hoping to follow plan A, one might contract in advance for the *option* of pursuing plan B, or plan C, or whatever plan would best respond to the contingency. For example, Arthur DeVany and Ross Eckert tell how, in the golden age, motion-picture companies worked on a contract system with film stars and other talent, and vertically integrated into the movie-house business, because of severe and pervasive uncertainties on both the supply side and the demand side of the industry. They argue that the Supreme Court's *Paramount* decision (1948), which broke up the production-house system, was based on an oversimplified notion of "restraint of trade," and resulted in losses for filmmakers and audiences alike.[2]

In our example of free-enterprise urban transit, severe uncertainty and individuation might be fundamental, and adaptation crucial. Carriers might not expect current conditions to persist. New competitors might invade their routes or current competitors drop out. The carrier companies may wish to abandon certain routes or add others. For such reasons they may wish to lease their buses and vans, and form contracts that permit them to alter on short notice how they use their vehicles. They may form flexible contracts with their drivers, allowing the company to alter hours and remuneration. In unregulated private enterprise, such flexible respondence, as is common practice, is an important source of both cost containment and effective service. But it is seldom captured in equilibrium storytelling.

Epiphany

It is one thing for the entrepreneur to greet fortune when it comes knocking. It is something else to apprehend fortune in its hidden forms and seize it. Here we have the distinction between responding to the realization of events within a framework of recognized variables and relationships and the discovery of a fresh opportunity to embrace a new and better framework. This element of epiphany, of finding fortune by interpreting the world differently, is the subtle and vital element in human decision-making. Yet it is absent from equilibrium model-building.

An example of epiphany is found in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

W. Somerset Maugham's short story "The Verger." A new vicar came to St. Peter's, Neville Square, and called in the church verger to discuss a troubling matter. "I discovered to my astonishment that you could neither read nor write," he told Albert Edward Foreman, the verger of 16 years. When directed to learn to read and write, Albert Edward replied, "I'm too old a dog" and bid the vicar a friendly farewell. He hung up his verger's gown and went into the street. He was a nonsmoker, but with a certain latitude, and it occurred to him that a cigarette would comfort him. He looked up and down the long street without finding a shop that sold cigarettes.

> "I can't be the only man as walks along this street and wants a fag," he said. "I shouldn't wonder but what a fellow might do very well with a little shop here. Tobacco and sweets, you know."
>
> He gave a sudden start.
>
> "That's an idea," he said. "Strange 'ow things come to you when you least expect it."
>
> He turned, walked home, and had his tea.
>
> "You're very silent this afternoon, Albert," his wife remarked.
>
> "I'm thinking," he said.

The former verger set up in business as a tobacconist and news agent. Soon he set up more shops, and in time accumulated a small fortune. The distinguished gentleman went to the bank to put his wealth into securities and startled the bank manager by announcing that he could not read or write. "Good God, man, what would you be now if you had been able to?" "I can tell you that, sir," replied Mr. Foreman. "I'd be verger of St. Peter's, Neville Square."[3]

Maugham's story tells of a man who not only discovered something he wasn't looking for, but discovered something he quite possibly might not have discovered at all. In Israel Kirzner's terms, the verger was alert to a profit opportunity.[4] The verger's apprehension of the street as a bad place to find a cigarette was a realization in his working framework. Apprehending it as a good place to set up a tobacco shop was not. The opportunity could have been missed entirely or noticed only fleetingly.

Economists give some attention to innovation in the sense of significant and identifiable technological advance. But they give very little attention to alertness or epiphany in all their buzzing, blooming—yet very often mundane—manifestations. The verger's story is material for neither a news headline nor an elegant model. Nor is it captured by any variable called "education" or "R&D." It is nonetheless the kind of small breakthrough everyone makes now and then, and which, in aggregate, accounts for significant economic improvement. It is creativity and imagination, achieved countless times over, in the individuated worlds of individuals. Whereas search/respondence explores the individual's adaptation within his individuated world, Kirzner's alertness is the individual's reformulation of that world.[5] This human experience of reformulating, or reinterpreting, one's world, this element of epiphany, is by its very nature virtually impossible to capture within an equilibrium model.[6]

Too often economists neglect the effects of public policy on alertness and the discovery process. Kirzner however queries: What economic and political institutions can be expected most successfully to evoke entrepreneurial alertness?

In the Somerset Maugham story, the verger noticed something that was now in his interest to notice. At the heart of Kirzner's distinctive argument for economic freedom is his recognition that two people walking down the same street will see different things. That difference, he writes, "can be ascribed, in part, to the *interests* of the two individuals. Each tends to notice that which is of interest *to him.*"[7] The claim is natural enough and beyond doubt. It implies that profit opportunities will be best discovered and seized in a legal framework that gives individuals an interest in discovering them.

In formal models, economic freedom (and a host of other assumptions) lead to perfectly efficient outcomes. But Kirzner's argument for freedom is totally missed by such logic and arises only because the ancillary assumptions

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of the model do not hold. In real life, many opportunities lie hidden from view. Not only are preferences, constraints, and opportunities individuated in minute detail, but each actor's interpretation of them is individuated.

The market process generates a system of human activities each of which is performed in partial ignorance. There are always discrepancies between available opportunities and market recognition of them. We therefore value, Kirzner argues, a legal system "which offers entrepreneurs the required incentives for the discrepancies to be noticed and corrected."[8] The legal system that best does so is economic freedom, which keeps individuals alert to profit opportunities because it grants them an interest in seizing them. To Kirzner, the most impressive aspect of the free market is not its ability to generate efficient allocations within a framework of fully recognized ends and means. Rather, "the most impressive aspect of the market system is the tendency for [previously unrecognized ends and means] to be discovered."[9] Yet this most impressive aspect, which cannot be captured in the language of mainstream economics, is poorly recognized in academic economic research and poorly imparted in economic education.

Consider again the making of policy for urban transit. It is typical for local governments to fix the price of taxi services and to require official meters in taxicabs. An economist might argue that this policy remedies problems of bad consumer information, infrequent dealings, and cabby opportunism. With a model of supply and demand in his head, he might reason that so long as regulators don't set the price too far from "the equilibrium price," the downside of price fixing may not be so bad.

Kirzner would argue that his reasoning is glaringly inadequate. Price competition, he'd say, is crucial to the vibrancy of the market and should not be seen in isolation from other activities in the market process.

Perhaps an upstart company seeks to enter a sleepy local taxi market. It plans to utilize a new maintenance system to keep the cabs in repair or a new dispatching system to provide prompter service to customers. It might offer new stylish cabs and bring this new service to the consumer's attention by a clever advertising campaign. Finally, it plans on cracking the traditional market by offering—at least temporarily—a well-publicized low price—the lowest in town.

Kirzner's point is that when the government fixes taxi rates, besides running the risk of getting a shortage or surplus, we run the risk of regimenting the industry and choking off the vital process of discovery. If the upstart company cannot offer a new low price, then it is likely to forgo the campaign altogether. Society loses not merely some "quantity supplied," but an entire foray into a local economic terrain, a vital entrepreneurial investigation into new services and new ways of producing them. In carrying out the would-be campaign, the upstart company would have undergone a series of fresh decisions, each of which would have involved entrepreneurial discoveries. The overtrained economic perspective fails to appreciate this larger social loss from government assaults on freedom.

Serendipity

In our discussion of search and respondence we saw how freedom allows individuals to adapt to individuated conditions by responding to changes in those conditions and forming contracts to cope with them. In our discussion of Kirznerian alertness we saw how freedom sparks individuals to adapt their interpretations of local conditions, to incorporate available but undiscovered profit opportunities into their interpretive framework. There is yet another facet of freedom that helps match appropriate behavior and opportunity.

In a famous article entitled "Uncertainty, Evolution, and Economic Theory," Armen Alchian pointed out that in a market not only does behavior tend to adapt appropriately to opportunity, but opportunity tends to adopt appropriate behavior. The survivors in a market, he explains, "may appear to be those having *adapted* themselves to the environment, whereas the truth may well be that the environment has *adopted* them."[10]

Alchian gives an unreal but useful example:

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

> Assume that thousands of travelers set out from Chicago, selecting their roads completely at random and without foresight. . . . [O]n but one road are there any gasoline stations. . . . [T]ravelers will *continue* to travel only on that road; those on other roads will soon run out of gas. . . . If gasoline supplies were now moved to a new road, some formerly luckless travelers again would be able to move; and a new pattern of travel would be observed, although none of the travelers had changed his particular path. . . . All that is needed is a set of varied, risk-taking (adoptable) travelers. The correct direction of travel will be established.[11]

Alchian asks for an economic understanding that does not limit behavior to the tidy forms of optimization that make equilibrium models cohere. He asks for a more evolutionary understanding that allows "imitative, venturesome, innovative, trial-and-error adaptive behavior."[12] Such behavior, even though not neatly rational, may nonetheless be fortunate enough to find serendipity. Serendipity is a major discovery that one was not looking for, that alters one's own interpretation of what one is doing, and that is obvious to the discoverer. Unlike the epiphany, serendipity does not depend on alertness or insight. It hits you in the face.

Alchian's idea of opportunity adopting appropriate behavior points us toward another facet of economic freedom, again a facet eclipsed by equilibrium model-building. Alchian's point tells us to value freedom even for human behavior that is foolhardy, romantic, or arbitrary. Economic freedom carries the freedom to act regardless of permits, licenses, certification, or other forms of government permission to use one's own property or to enter consensually into dealings with others.

In conjunction with the freedom to experiment comes the responsibility of failure: only if the individual or firm carries the responsibility of failure will the selection mechanism of the competitive market operate to adopt appropriate behavior.

Once a particular type of behavior—be it a way of providing a restaurant, of distributing auto parts, or of manufacturing textiles—hits upon success, that behavior is imitated and the social benefits increase. Behavior that does not hit upon success perishes. Alchian introduces a ballistics metaphor to make the point: "[s]uccess is discovered . . . not by the individual through a converging search . . . [but] by the economic system through a blanketing shotgun process."[13] I think of Jed Clampett, the television character of "The Beverly Hillbillies," who inadvertently discovered crude oil while out shooting for some food.[14] That epitomizes serendipity. Freedom produces the widest and fullest blanket of buckshot, and the honest dollar rewards the shots that hit the mark.

Sometimes serendipity comes about not by random shotgunning but by mistake. Many of us have had the experience of making a mistake in using our word-processing program, and, in figuring out how to fix the mistake, discovering some wonderful feature we hadn't known about. Mistake turns out to be a blessing. The historian Samuel Eliot Morison tells of such a case in the early pages of *The Oxford History of the American People*: "America was discovered accidentally by a great seaman who was looking for something else; when discovered it was not wanted; and most of the exploration for the next fifty years was done in the hope of getting through or around it."[15] Alchian points out that a great deal of "pioneering and leadership" in the economic realm occurs by failed attempts at imitation.[16] Because economic freedom presses entrepreneurs into contact and experimentation with their environment, it best generates serendipity.

Compare Alchian's idea of shotgunning with Kirzner's theory of discovery based on interest. In his example of two individuals who walk down the same city block, Kirzner argues that each tends to notice things that he would best be able to make use of. But even if discovery is not led by interest and is merely random, there is a definite benefit to having two, rather than one, encounters with the environment, since with two it is more likely that at least one will serendipitously discover an as-yet undiscovered opportunity. And Alchian's shotgunning idea is especially impor-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tant if discovery depends not only on individual interest, as Kirzner maintains, but also on distinctive talents in perceiving the environment; thus it has been argued that immigrant entrepreneurs sometimes succeed by virtue of their peculiar outlook on things. Each type of mind may have its own special propensity to have happy accidents.

In our example of urban transit, market experimentation might mean new modes, new vehicles, new pricing schemes, new routes, new schedules, new aspects of service, etc. Those changes might come from within the industry, from newcomers, or from entrepreneurs initially based in other industries, perhaps in hotel services, delivery services, or even used-car dealing. A free-enterprise transit policy would invite all comers to take their shot in the market, and let travelers select the most worthy. Depending on their discoveries, niche-finders would survive, or prosper, or induce imitation.

If economists were to allow more attention to the discovery factors, they might find themselves in stronger support of economic freedom. The discovery factors are all linked in their illumination of the following two points: (a) knowledge and opportunity are extremely local and individuated, (b) knowledge and opportunity are constantly changing. These points humble us by telling us that the economy will always be largely unknowable, as Friedrich Hayek argued so powerfully.

If, despite the best intellectual efforts, economic processes will remain largely unknown, it makes little sense for the regulator, aided by the academic economist, to try to alter outcomes by regulating citizens. The wiser course typically is simply to safeguard the rules of property, consent, and contract, and leave citizens free to discover themselves within that legal framework. □

1. Ronald Coase, "Business Organization and the Accountant" (from articles originally published in 1938), *LSE Essays on Cost*, edited by J. M. Buchanan and G. F. Thirlby (New York: New York University Press, 1981), pp. 95–132.

2. Arthur DeVany and Ross D. Eckert, "Motion Picture Antitrust: The Paramount Case Revisited," *Research in Law and Economics*, vol. 14 (1991): 51–112.

3. W. Somerset Maugham, "The Verger," in *The Complete Short Stories of W. Somerset Maugham*, Vol. III (Garden City, N.Y.: Doubleday, 1952), pp. 572–78.

4. Israel M. Kirzner, *Discovery and the Capitalist Process* (Chicago: University of Chicago Press, 1985).

5. "The crucial element in behavior expressing entrepreneurial alertness is that it expresses the decision maker's ability spontaneously to transcend an existing framework of perceived opportunities." Kirzner, p. 7.

6. Israel M. Kirzner, *Perception, Opportunity, and Profit* (Chicago: University of Chicago Press, 1979), p. 155, wherein he says that the distinctive aspect of entrepreneurial activity is "its inability to be compressed within the equilibrium conception of the market." I believe that the only hope of capturing epiphany within an equilibrium model of optimizing agents is to model the individual human mind as a society of multiple agents; see my paper "Entrepreneurship and the Deep Self."

7. Kirzner, *Discovery*, p. 28.

8. *Ibid.*, p. 30.

9. *Ibid.*

10. Alchian's article was originally published in *The Journal of Political Economy*, 1950. It is reprinted in his *Economic Forces at Work* (Indianapolis, Ind.: Liberty Fund, 1977), quote at p. 22.

11. *Ibid.*

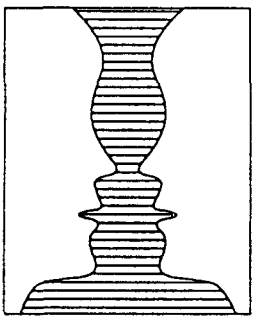
12. *Ibid.*, p. 32.

13. *Ibid.*, p. 31.

14. The genuine counterpart to Jed Clampett is James Marshall, a frontiersman who undertook to build a sawmill in the Sierra Nevadas in 1848. Instead he struck gold and triggered the California gold rush.

15. Samuel Eliot Morison, *The Oxford History of the American People* (New York: Oxford University Press, 1965), p. 23.

16. Alchian, p. 30.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Yes, Virginia, There *Is* a Free Lunch

by William H. Peterson

"In the sweat of thy face shalt thou eat bread."

So an angry Lord Jehovah thundered down on Adam and Eve—that unrighteous couple who had eaten of the forbidden fruit and were forthwith banished from the Garden of Eden and its endless bounty. And so was born, in the Old Testament version, the primal economic law of scarcity—man caught in a lifelong dilemma of unlimited ends in a world of limited means, including life itself.

Here, Virginia, sweat means work, effort, fatigue. It also means production, possible economic growth (the creation of more and more goods and services to allay man's basic needs of food, clothing, shelter), and, amazingly nowadays, a fresh bounty of luxury wealth, including cellular telephones, microwave ovens, heart bypass operations, mutual funds, a winter flight to the sun in Cancún, Mexico, or to the ski trails of Aspen.

The Catch-22 with wealth creation is government intervention: state intrusion in the market process that is supposed to make things better (a free lunch) but ineluctably makes them worse. Catch-23 is its cost. Production involves choices, often hard choices, about how to use scarce, or economic, resources with alternative uses. Thus God's commandment to banished Adam and Eve seems to have been: "Look, I'm no longer promising you a rose garden, only the opportunity to grow one."

Catch-23 recognizes that nature still metes out her blessings sparingly, begrudgingly, whether in the Third World or on Park Avenue. Man fatedly wants more than he is able to get. Man then has to strategically think about wealth creation, to decide how and what to choose among consumer and capital goods. At the same time, he must decide what not to choose, given his limited—repeat, limited—time, energy, talent, and other resources, including, of course, cash and credit.

So life foists decisions daily, hourly, and even faster, on the firm—and government—as well as on the individual. As if you didn't know firsthand, Virginia. Man's plight—and opportunity—is that he perforce has to choose and exchange among competing options. He has to give up one thing for another. Choice by choice he seeks to optimize his resources. He has to sort out available options and single out but one in any action.

Early on in life, man gets a powerful message: He can't eat his cake and have it too. To get he must give, to earn more he must invest more in skills and tools so as to boost his output and consume more. Self-interest under the rule of law spurs him to fashion

Dr. Peterson, an adjunct scholar at the Heritage Foundation, is Distinguished Lundy Professor Emeritus of Business Philosophy at Campbell University, Buies Creek, North Carolina.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tools for mind, hand, and, not so incidentally, society.

Cost. Aye, there's the rub. Man soon finds out that an opportunity taken means an opportunity forgone, that a costless Garden of Eden is not of this world. This law of opportunity cost recognizes that making choices innately involves cost-benefit analysis or, in the words of Ludwig von Mises in *Human Action*, "taking and renunciation." Take one benefit and you at once renounce another.

Tradeoffs

Nothing is for nothing. Something is only for something. Remember that Robinson Crusoe took off precious time from fishing to make a net in order to raise his catch. Trading-off is a rule of life, a facing-up to universal scarcity, to feeling, say, a gnawing sensation in the tummy three (or more) times a day, a gnawing not to be ignored (even if yielding to it can be overdone). Hunger demands action but not just any action. Or as an old Chinese saying has it: A hungry man must wait a long time before a roast duck flies into his mouth.

Milton Friedman has popularized this tradeoff idea as "There Ain't No Such Thing As A Free Lunch" (TANSTAAFL). Henry Hazlitt had a similar idea and got at state intervention's blindness to opportunity cost in his classic, *Economics in One Lesson* (1946): "The art of economics consists in looking not merely at the immediate but at the longer-run effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."

Thus the law of opportunity cost, or no free lunch, is a hard fact of life—as far as it goes. But in life's unending demand for choosing this quid for that quo lies the makings of, if not a free lunch and if not impeded by state intervention, a freer lunch—and a tastier, healthier, more variegated lunch at that.

Look, Virginia: Every human action, the good and the bad, the noble and the ignoble, substitutes one state of affairs for another—a perceived better state for a perceived inferior state. The acting individual seeks a profit or lesser loss in each and every action. He is driven to seek an ever greater output for an ever lesser input—a freer lunch. And he can't help improving the lot of others in the process.

Recall how Adam Smith tagged man's self-interest under the rule of law as "an invisible hand [promoting] an end which was no part of his intention." As he went on in his *The Wealth of Nations* (1776): "By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good."

Another eighteenth-century writer, Jonathan Swift, also gave credit for a more bountiful lunch to self-interest under the rule of law, noting its intimately related drive for invention and entrepreneurship. In *Gulliver's Travels* (1726) he wrote, "And he gave it for his opinion, that whoever could make two ears of corn or two blades of grass to grow upon the spot of ground where only one grew before, would deserve better of mankind, and so do more essential service to his country, than the whole race of politicians put together."

Swift's point on interventionist do-gooding politicians is well taken. It came at the peak of mercantilism when politicians in Europe actively interfered in markets through guilds, bounties, tariffs, quotas, production limits, colonial restrictions, and other interventions, thus winding up doing bad.

A lesson emerges: Free, or private, choices tend to maximize returns and spur economic growth; coerced, or public, choices tend to minimize returns and impede economic growth. Under private-property rights, the law of opportunity cost becomes a tool advancing wealth creation and social cooperation.

To be sure, conditions change, private miscalculations occur, private mistakes are made. "The Edsel is here to stay," said Henry Ford II in 1957. Nonetheless, thanks to private enterprise, the history of man is onward and upward in terms of getting more of the good things of life, a freer, if not quite free, lunch. That lunch shrinks in size and quality

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

under state intervention. It can even sink out of sight, as in the cases of ancient and interventionist Egypt, Greece, and Rome.

Free to Choose

Yet civilization struggles on. And in that struggle is the story of freedom and free enterprise, savings and investment, entrepreneurship and invention—of payoffs in wealth from what Milton and Rose Friedman see as man's optimum political and economic state of being "free to choose." Man's progress is seen in the long steady improvement of capital goods, or tools, with each tool representing at once savings (forbearance) and investment (productivity), or cost and opportunity.

That improvement stretches from the Stone Age of a million years ago, when man made edged-flint hand tools, or crude eoliths, to remove bark, hunt wild game, and skin animals. The eolith is a model of opportunity cost—an opening for better output at the cost of time in flint searching and edging, with a freer lunch passed on to succeeding generations.

Some 250,000 years ago the model continued when man perfected fire for cooking and later for smelting and forming metal from ore. Some 15,000 years ago he invented spear-throwing and the bow and arrow; some 8,000 years ago he domesticated cattle for livestock and invented a sickle for harvesting; some 7,500 years ago he developed agriculture and wove linen on wooden looms; some 6,000 years ago he drew signs as a basis of alphabets and heightened communications.

Fast-forward to the Industrial Revolution, starting around 1750 (when human longevity was around 30 years), to see an explosion of highly productive inventions that sharply cut opportunity costs, boosted output per man-hour, accelerated man's material well-being, and lengthened his life span. Study the impact of inventions such as Watt's steam engine in 1776, Whitney's cotton gin in 1791, Fulton's steamboat in 1807, McCormick's reaper in 1841, Howe's sewing machine in 1845, Bessemer's steel furnace in 1855, Drake's oil-well strike in 1859, Bell's telephone in 1876, Edison's electric light in 1879, Duryea's automobile ("the horseless carriage") in 1892, and on into the twentieth century for an even more dazzling display of technological advances from the refrigerator to jet travel, from kidney transplants to interactive TV, from the computer to the World Wide Web.

In all, witness how better tools increase productivity, making for freer lunches. Today human longevity in the West is well up in the 70s, for an average gain of around 45 years in the last 250 years or so. All thanks to a long succession of opportunity-cost cutters, of mostly unsung savers and investors, inventors and entrepreneurs. Thanks, too, to private-property rights—however unstable over the history of still-rapacious government, even here on the eve of the 21st century.

Trade, Virginia, is another aspect of opportunity cost. And because it is mutually productive, mutually profitable, it's anything but a greedy zero-sum or negative-sum, winner-take-all game, as some critics charge. Rather, trade, including world trade, is a win-win process of social cooperation, a positive-sum game that as a rule enhances the well-being of each player and of society as a whole. It follows that protectionism is a pox and a destroyer of international harmony.

The fly in this ointment of freer lunches is nominally "productive," but inherently counterproductive, intervention. Neomercantilistic states everywhere, including the United States, interfere with production, impede trade, foster inflation, inflict rent control, impose stiff capital gains taxes, create a rising underclass via the welfare state, and generally foist social trouble and raise opportunity costs. It's an inadvertent policy of less for more. Much less.

Sure, in sum, the law of opportunity cost as implying no free lunch is entirely correct, but only as far as it goes. For in the history of state-harassed freedom and free enterprise, a far different picture of the law of opportunity cost emerges. It is one of wealth creation: growing remunerative work opportunities, rising private savings and capital investment, creative invention and entrepreneurship, amazing productivity gains, plunging opportunity costs. It is this picture that enables the viewer to say, "Yes, Virginia, there *is* a free lunch." But can she keep it? □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Government and Disaster Relief

The North Dakota flood this past spring was a heartbreaker. The scenes of devastation gripped the nation and brought tears to the eyes of millions.

Back here in Michigan, my historian friend Burt Folsom used the occasion to acquaint me with an event about which I knew nothing: the terrible Michigan fire of 1881. Folsom noted a couple of differences between these two natural disasters, and gave me an earful of information that readers of this column may find interesting.

The first difference is that, bad as the flood on the Red River was, the Michigan fire exacted an even greater toll. Raging flames swept through the state's "Thumb" area, killing almost 200 people and destroying over one million acres of timberland. "The flames ran faster than a horse could gallop," said one survivor of this devastating blaze. Its hurricane-like fury uprooted trees, blew away buildings, and destroyed millions of dollars of property across four counties.

A second and more profound difference, according to Folsom, may be seen in prevailing attitudes toward private charity and the role of government. In the North Dakota flood, a California philanthropist donated $2,000 to every flooded household and many others pitched in, but much of the spotlight focused on high-profile politicians and other people's tax money they were generously offering to the victims. President Clinton and four cabinet secretaries flew to Grand Forks to announce a policy rarely adopted in federal relief efforts: Washington would pay 100 percent of the immediate emergency work, not the "mere" 75 percent it paid in the past.

At the time of the Michigan fire, Americans looked inward to themselves, not outward to the federal government, to assist the victims. They became the most generous people on earth, partly because they knew government had nothing to give except what it taxed away in the first place, and partly because they saw it as a personal responsibility to help their fellow citizens in need. For Michiganians in 1881, this meant an outpouring of help freely given from fellow Americans everywhere. In fact, the Michigan fire became the first disaster relief effort of Clara Barton and the newly formed American Red Cross. As the smoke billowed eastward across the nation, Barton's home town of Dansville, New York, became a focal point of relief. According to the officers of the Dansville Red Cross, a call from Clara Barton "rallied us to our work."

"Instantly," they said, "we felt the help and strength of our organization [the Red Cross], young and untried as it was." Men, women, and children throughout western New York brought food, clothing, and other gifts. Before the Red Cross would send them to Michigan, a committee of ladies inspected each item and restitched garments or replaced food when necessary.

Speed was important, not only because many were hungry but also because winter

Lawrence W. Reed, economist and author, is president of the Mackinac Center for Public Policy, a free-market research and educational organization headquartered in Midland, Michigan.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

was approaching. Bedding and heavy clothing were in demand. Railroads provided the shipping. People left jobs and homes and trekked to Michigan to get personally involved in the rebuilding. Soon the Red Cross in New York and the local relief committees in Michigan were working together to distribute supplies until "no more were needed," according to the final report from the Red Cross.

The Red Cross assistance was much appreciated. And it made disaster relief faster, more efficient, and national in scope. But even if such help had not come, Michiganians were prepared to organize all relief voluntarily within the state. In a previous fire in 1871, nearly 3,000 Michigan families were left homeless. Governor Henry Baldwin personally organized the relief efforts and gave out of his own pockets about $150,000 (over $3 million in today's dollars). Few if any thought it necessary to create a federal relief bureaucracy.

Henry Baldwin in 1871 and the Red Cross a decade later fulfilled the true definition of compassion. They suffered together with the fire victims and worked personally to reduce their pain. Perhaps Baldwin, the Red Cross, and the fire victims themselves felt that aid from Washington might dampen the enthusiasm of volunteers who gave their energy and resources out of a sense of brotherly love and duty. And this was in a year when the federal budget had a $100 million surplus, not the $100 billion deficit of today!

Why did so many Americans 100 years ago reject federal aid and insist on personal charity during natural disasters? Horatio Bunce, a farmer/philosopher of the 1800s, spoke for most citizens when he argued that federal aid to disaster victims was not only unconstitutional, but also uncharitable: "If ... you are at liberty to give to any and everything which you may believe, or profess to believe, is a charity, and to any amount you may think proper," he told his congressman, "you will very easily perceive what a wide door this would open for fraud and corruption and favoritism, on the one hand, and for robbing the people on the other."

Indeed, modern relief efforts of government show all the signs of bearing out Bunce's admonition. Politicians seem to have a definition of "disaster" that gets more elastic with each passing year. To be eligible for relief disbursements under federal law, an event must "be of such severity and magnitude that effective response is beyond the capabilities of the state and affected local governments." The term "capabilities" often ends up meaning "willingness." When federal cash is a prospect, it's amazing how many state and local politicians think that both their governments and private citizens are "incapable" of getting by without it.

Whereas federal disaster relief used to apply to horrific events like hurricanes, earthquakes, and floods, it also goes now for unfortunate episodes that never were thought of as anything but local and private—severe cold, snowstorms, even the effects of the El Niño current on the West Coast fishing fleet. Two years ago, the governor of Massachusetts asked the president to declare some fishing towns in his state disaster areas because the fish had disappeared.

It is vital that people understand the preemptive influence of government relief. There is little reason to believe that politicians are more compassionate or caring than the population that elects them. There is little reason to believe that politicians who are not on the disaster scene and don't know the families affected will be more knowledgeable about how best to help than those who are on the scene and personally know the victims. There is even less reason to believe that politicians spend other people's money more effectively than those people to whom it belongs in the first place. Therefore, when government gets involved, there is good reason to believe that much of its effort simply displaces what private people and groups would do better and more cost effectively if government stayed home.

Another, equally vital point should be noted: The lofty status of "disaster relief heroes" is earned every year by thousands of private citizens acting out of their own desire and resources, and whose names and selfless devotion often don't make headlines. The politicians who show up with other people's money are in a different category. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

The Supreme Court of the United States:

Guardians of the Constitution or Watching Out for Their Own?

by Daniel J. Pilla

By the very terms of the Constitution, all judicial officers, as well as others in government service, "shall be bound by Oath or Affirmation" to support the Constitution. Article VI also sets forth what is known as the "Supremacy Clause." It holds that the Constitution, all laws pursuant to it, and all treaties are the supreme law of the land and that "the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws or any State to the Contrary notwithstanding."

It is for this reason the United States is referred to as a nation of laws, not of men. Our republican form of government assures all citizens that basic law, justice, liberty, and due process will be observed as to each person, regardless of his financial standing or political influence.

As the highest court in the land, the Supreme Court is intended to be the guardian of liberty. In *Federalist* No. 78, Alexander Hamilton referred to the judicial branch as the "citadel of the public justice and the public security." The Supreme Court, indeed the entire judicial branch of government under Article III, was set up as an element of government independent of the other two. The founders knew that an independent judiciary was critical to maintaining liberty.

The legislative powers are vested in Congress under Article I. They are intended to pass laws necessary to carry out the terms of the Constitution as set forth in the preamble. The executive department under Article II possesses the power to carry out the legitimate functions of government and to control the armed forces. Described in modern terms, the Supreme Court, on the other hand, is intended to function as a goalie. It is to "kick out" any legislative or executive act that infringes the plain language of the Constitution.

Regarding legislation, the court is to do nothing more than compare the language of the statute with that of the Constitution to see whether the former comports with the latter. If so, the statute is legitimate and enforceable. If not, the statute is void under the terms of Article VI. It is to be struck down.

Of the language describing the three branches of government, Article III is by far the most succinct. The founders dedicated ten sections in Article I to explain the function of the legislative branch and four lengthy sections in Article II to describe the executive. Article III has just three short sections. These, combined with the concise language of Article VI, make it clear that the court has no power to make laws or negate specific Constitutional

Mr. Pilla is a tax litigation consultant and author of nine books on successful methods of dealing with and preventing IRS abuse.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

provisions or protections. The court is a goalie, not a forward. Goalies do not score.

For decades since the 1930s, however, the Supreme Court has taken an activist role. Too many of its decisions fall outside the scope of judicial review; they have the character of legislation. As a result, our constitutional liberties have eroded substantially, while at the same time the power and reach of the federal government has been extended to all areas of our private lives in absolute disregard of the limitations set forth in the Constitution.

The Judges Go to Court

This is particularly true in tax cases. Whereas the Constitution plainly confines the power of government in several important areas, virtually all the limits have been declared invalid as they relate to the Internal Revenue Service. But when the power of taxation imposes upon the rights of federal judges, the courts are quick to protect their own.

Consider the case of Judge Terry J. Hatter and 15 of his colleagues. Hatter and the others are federal judges all appointed to the bench sometime before January 1983. Like most federal employees at the time, they were not subject to the Social Security tax laws. Rather, they enjoyed their own pension under the Civil Service Retirement System.

Beginning in 1982, however, Congress changed the law. To address the growing concerns over the solvency of Social Security, two major tax laws were passed in 1982 and 1983. The first was the Tax Equity and Fiscal Responsibility Act of 1982. The second was the Social Security Amendments of 1983. The first made the hospital insurance portion of Social Security applicable to federal employees, including judges, effective January 1, 1983. The second made the old age and survivors disability portion—the bulk of Social Security taxes—applicable to federal employees, including judges, effective January 1, 1984.

As a result of being brought within the pale of the Social Security tax scheme by these two laws, Hatter and his brethren sued the federal government claiming a violation of their constitutional rights. How can imposing income taxes on judges possibly violate the Constitution? If we citizens have to pay taxes, why not federal judges? The answer lies within the language of Article III, section 1, which holds that the compensation of federal judges "shall not be diminished during their Continuance in Office." Hatter argued that the imposition of the tax after he took office violated that clause.

Hamilton described the purpose of the compensation clause as being essential to protecting the separation of powers. He wrote in *Federalist* No. 79 that, "in the general course of human nature, a power over a man's subsistence amounts to a power over his will." Nothing could more aptly describe the power of the purse. Our founders knew that if the judiciary was to remain independent of Congress and the executive department, their compensation would have to be beyond their tampering.

The language of Article III has always been broadly construed to prohibit any diminution in compensation during a judge's tenure. Indeed, a similar suit was brought by federal judges in the years immediately following the adoption of the income tax in 1913. The case of *Evans v. Gore* found its way to the Supreme Court, where it was held that the prohibition contained no exception for "diminution by taxation." Judges appointed to the bench after the tax took effect were subject to it. However, those who held office before the tax was enacted were held exempt.

In the case of *Hatter v. United States*, the U.S. Court of Appeals reached the same conclusion. The Supreme Court unceremoniously affirmed the ruling.

Some Are More Equal Than Others

When the question of the constitutionality of a federal tax relates to a federal judge, the courts seem to have no difficulty ascertaining the plain language of the Constitution and applying it to the statute. When it is found that the Constitution prohibits the legislative act prescribed by the statute, the courts have no difficulty slapping down the infringement.

But let us contrast that with a case involving

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

a private citizen and his equally compelling constitutional argument. That case is *United States v. Lee* (1982). The case involved precisely the same Social Security laws. The fundamental difference is that Lee was not a federal judge but a self-employed farmer and carpenter. He was a member of the Old Order Amish and employed several persons in his business. Lee's complaint grew not from the compensation clause but from the free-exercise clause of the First Amendment.

Because the Amish are religiously opposed to the kinds of benefits offered by Social Security, Lee did not participate in the system. He neither paid into it nor expected to draw from it.

Prior to the Social Security amendments of 1982 and 1983, the law expressly provided that Lee and those of his religious community were not required to withhold Social Security taxes from their employees or pay the matching funds. The new law, however, extended the tax obligation to wages paid by employers to employees, even if the employees were not liable for the tax themselves. As a result, Lee found himself faced with the duty to pay matching funds for a tax that he was plainly opposed to on religious grounds and that he was exempt from paying under prior law.

Lee opted to stick to his religious principles and did not pay the taxes. He was assessed several thousand dollars by the IRS, and after paying a portion of the tax, he sued for a refund. After initial success, Lee found himself before the Supreme Court.

The First Amendment, of course, expressly states that Congress "shall make no law" respecting an establishment of religion or "prohibiting the free exercise thereof." In its opinion, the Supreme Court found that because of the Amish faith, "compulsory participation in the social security system interferes with [Lee's] free exercise rights" under the First Amendment. This is the conclusion a liberty-minded person would have hoped the court would reach. Unfortunately, its reasoning did not end there. Chief Justice Warren Burger went on to explain that the courts must strike a "balance" between the rights of the citizen and an "overriding" governmental interest. He reasoned that when the government could show such an "overriding interest," it could infringe the plain and clear constitutional rights of the citizen.

The Court held that Lee must be forced to participate in the Social Security program despite its finding that this expressly violated his First Amendment rights. It rationalized the infringement by citing the government's "overriding interest" in collecting taxes and stating that "mandatory participation is indispensable to the fiscal vitality of the social security program." Citing the questionable financial soundness of the system, Chief Justice Burger observed that "widespread individual voluntary coverage under social security . . . would undermine the soundness of the social security program."

In no uncertain terms, the Supreme Court said that because the government needs the money it is permissible to violate the constitutional rights of a citizen. Thus, the only "overriding governmental interest" involved in the Lee case is financial.

In concluding, Chief Justice Burger reasoned that religious beliefs "can be accommodated, but there is a point at which accommodation would radically restrict the operating latitude of the legislature." The Supreme Court was saying that Congress must have free rein—absolute freedom—to pass laws. Religious and presumably other constitutional rights cannot be permitted to exist if they threaten the government's ability to do so.

Note how far this logic is removed from the model set forth by Hamilton in *Federalist* No. 78. In affirming the court's power of judicial review, Hamilton said, "If there should happen to be an irreconcilable variance between the two [the Constitution and a legislative act], that which has the superior obligation and validity ought, of course, to be preferred; or, in other words, the Constitution ought to be preferred to the statute."

From beginning to end, the Bill of Rights places express restrictions on government's ability to pass laws. Without such restrictions, this government is no better than any dictatorship that has ever existed. Those restrictions directly and simply forbid the invasion of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

individual rights by a government eager to pass laws that infringe our liberty. Yet the Supreme Court in *Lee* held that the limitations are placed on the individual, not on government. Individual rights can be "accommodated," but only if they do not stand in the way of some legislative goal. With such a test, there is literally nothing the federal government cannot do in the name of some "overriding interest."

Are Rights to Be Balanced?

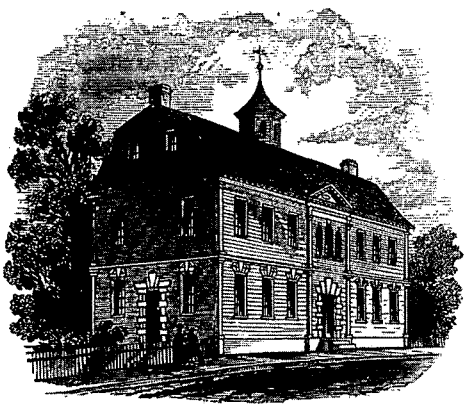
Where in the First Amendment does it say that your religious liberty is dependent upon a "balancing" test? Where does it say that Congress should "accommodate" those rights, but only if they do not interfere with its own right to legislate? Just as the Supreme Court noted in *Evans* regarding Article III and the compensation clause, there are "no excepting words" in the First Amendment. The right is absolute and is expressly intended to limit Congress in its zeal to pass restrictive laws. What other purpose is possibly served by the plain language "Congress shall make no law"?

When it comes to the rights of the average citizen, the courts have abandoned a strict reading of the plain language in favor of judicial creativity designed specifically to achieve the predetermined goal of getting into your pocket. Hamilton insisted on strict adherence to the letter of the document. "If we set out with . . . a scrupulous regard to the Constitution," he said, "the government will acquire a spirit and tone productive of permanent blessings to the community. If, on the contrary, the public counsels are guided by humor, passion, and prejudice; or from resentment to individuals, or a dread of partial inconveniences, the Constitution is slighted, or explained away, upon every frivolous pretext, the future spirit of government will be feeble, distracted and arbitrary."

Hamilton's message is simple. Continuity of the moral fabric of society is dependent upon legal absolutes, especially where citizens' rights are concerned. If the government is free to "explain away" the protections of the Constitution, in the end there will be no Constitution. If the rights of the citizens are made the "sport" of every change of governmental opinion, in the end citizens will have no rights.

How is it that a federal judge's constitutional rights are more sacred than those of the average citizen? Judges are charged with the sacred duty of protecting the rights of all citizens from encroachment by government. Yet, as we have seen, they embrace that duty when it comes to their own liberty and tear it to shreds when it would cloak the liberty of the average man.

What has happened to our courts? They have caused our priceless constitutional system of law and limited government to deteriorate. What system of taxation or social program is so important that we should sacrifice our precious liberty to save it? □



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Federal Government Growth Before the New Deal

by Randall G. Holcombe

Popular opinion holds that most of the credit (or blame) for the incredible growth of the federal government should go to President Franklin D. Roosevelt and his New Deal. While Roosevelt certainly was a willing participant in that process, the federal government began its amazingly rapid growth well before the New Deal, and it is unlikely that it would be much smaller today even had FDR never come along.

The origins of federal growth are in the Constitutional Convention. But the modern period of growth began with the Progressive Era before World War I. Contrary to popular belief, that growth continued through the 1920s. The percentage by which the federal government grew was greater during Herbert Hoover's four years as president than during the first seven years of the New Deal. Roosevelt merely continued a long-standing trend.

The story of the growth of the federal government can be divided into two parts: before and after 1913, when the 16th amendment to the Constitution, which permitted a federal income tax, was ratified. In 1913 federal spending was a mere 2.5 percent of GNP (today spending is almost ten times that level); so if the federal government is measured only by spending, little growth took place before the income tax. Before 1913, however, the federal government grew in other ways, by enlarging its power and changing its mandate. When the colonies came together to form the United States, the founders viewed the new government as the defender of its citizens' liberty. That meant protecting their rights—and in those days the most significant threat to the rights of individuals was, in nearly everyone's eyes, the government itself. By 1913 the federal government had been transformed into an organization not to protect rights, but, ostensibly, to further the nation's economic well-being.

The first part of our story, then, is how a government that began in 1776 as a protector of individual rights had by 1913 evolved into one that presumed to guarantee the economic welfare of its citizens. The second part of the story is how the federal government, armed with a powerful new source of revenue, began a continuous expansion that lasted throughout the twentieth century. One might be tempted to argue that the income tax was the cause of the federal government's growth, but that answer would be simplistic for two reasons. First, it focuses on spending alone and ignores the growth of the federal government's legal and regulatory power that began well before 1913. Second, it treats the income tax as something thrust on the nation rather than something chosen by its citizens. Constitutional amendments must have substantial popular support to gain the approval of two-thirds of both houses of Congress and three-quarters of the state legislatures. Americans wanted an income tax because they wanted more government, and they wanted

Professor Holcombe teaches economics at Florida State University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

more government because they believed it would enhance their economic well-being.

World War I was a period of enormous federal expansion, and the New Deal is likewise well known as a period of government growth. Yet the time in between, the 1920s, is often characterized as a time of retrenchment. In fact, the 1920s continued the growth that began in the Progressive era and set the stage for the New Deal. Before getting into details, we need to place the decade in the context of the preceding history of the federal government.

Federal Growth from 1776 to 1920

The first major event in the growth of the federal government was the ratification of the Constitution in 1789. Before that, the United States was governed under the Articles of Confederation. The Constitution is frequently praised as a document that protects the rights of individuals and limits the powers of government. But a comparison of the Constitution with the Articles reveals that just the opposite is true. Under the Constitution the federal government gained more power, was less accountable, and had greater latitude to determine its own scope of action. That is what the Constitution was intended to accomplish.[1]

The Constitution established the Electoral College for the selection of presidents, but specified no method for choosing electors. Several methods were used, but in most states the legislatures picked them. The framers expected that in most elections no candidate would get a majority of electoral votes. That would permit the House of Representatives to name the president from the five top electoral vote getters. That system never worked as envisioned, and by 1828, with the election of Andrew Jackson, the current system of popular voting for electors had become firmly entrenched, and along with it the party system.[2] From then on, successful candidates owed their success to the support of their parties, and in return used the political system to reward those who helped them get elected.

Undoubtedly the biggest event in the growth of the federal government was the Civil War, which established its supremacy over the states. The Civil War brought much new power to the federal government, and laid the groundwork for the growth of interest groups.[3] The first interest group to systematically raid the Treasury for its own benefit was the war veterans. Originally, Union veterans were entitled to pensions only if they had been injured in battle; they had up to five years to claim them. In 1870 veterans pensions totaled $286 million in 1990 dollars and should have then declined. Instead they rose to $1,548 million by 1890, because the Republicans, who dominated the White House and looked to veterans for political support, increasingly liberalized the pension laws until every Union veteran of the Civil War qualified.[4]

While veterans were a model for future interest groups, the Treasury at that time had decidedly limited means. At any rate, other groups were more interested in regulatory benefits. The Interstate Commerce Commission was created in 1887, and the Sherman Antitrust Act passed in 1890.[5] The transformation of the U.S. government continued as the turn of the century ushered in the Progressive Era. The Food and Drug Administration was created in 1906, the Federal Reserve in 1913, and the Federal Trade Commission in 1914. A government initially committed to protecting the liberty of its citizens now seemed to be just as firmly committed to looking out for their economic welfare.

The Progressive Era was interrupted by World War I, during which federal power advanced in unprecedented ways. The railroads were nationalized, waterborne shipping was regulated, and the United States Food Administration, created in 1917, controlled all aspects of the food industry, from agriculture to distribution to sales. Similar regulation was applied to fuels, and eventually to the whole economy.[6] When the federal income tax was introduced in 1913, the highest tax bracket was 7 percent for all income above $20,000. Because of the demand for war-related spending, by 1918 the highest rate rose to 77 percent beginning at $4,000. This was the context in which Warren G. Harding was

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

elected to the presidency in 1920 with the theme, a "return to normalcy."

Harding, Coolidge, and Hoover

If one looks only at total federal spending, it appears that the Republican administrations of Harding and Coolidge are a period of retrenchment sandwiched between the big-spending Democratic administrations of Woodrow Wilson and FDR. The Hoover administration does not fit this view even when examined superficially, because the percentage increase in spending during those four years exceeded the growth in the first seven years of FDR's New Deal, before World War II caused spending to skyrocket. Despite the conventional wisdom that big government began with FDR, a closer examination reveals that even the Harding and Coolidge administrations were periods of substantial government growth. It was masked, though, by the reduction in war-related spending following World War I.[7] The 1920s, then, were actually a continuation of Progressive Era government expansion, which would last through the New Deal.

Contemporary political-party ideological stereotypes do not fit the pre-New Deal era. At the risk of some oversimplification, they should be reversed. The Republican party, the party of Lincoln, was the advocate of a strong federal government with increasing powers, while the Democratic party, which had most of its power in the South, advocated states' rights and a smaller federal government. Moreover, Harding and Coolidge were not particularly strong presidents, and the Congress was dominated by Republicans with substantial Progressive leanings. For Harding and, after Harding's death in 1923, Coolidge, a return to normalcy meant a return to the Progressive policies begun before the war. This was even more true of Hoover, who was an engineer by training and a firm believer in applying scientific principles of management to government. During the Wilson administration Hoover was the head of the U.S. Food Administration. He was secretary of commerce throughout the Harding and Coolidge years, before being elected president in 1928.

Federal Spending During the 1920s

Aggregate federal spending declined slightly during the 1920s, when measured in inflation-adjusted dollars per person. However, that slight decline is really a combination of two different underlying trends. In 1916, federal spending per person was $83.60. (All data are in 1990 dollars.) By 1919 it had risen 16-fold, to $1,329.77. By 1927, federal spending had fallen to its low point of the decade, $180.57. The huge decline from 1919 is accounted for by a reduction in war-related spending, but nonwar spending actually increased sharply. Note that spending in 1927 was well over double the prewar 1916 level.

A more detailed analysis reaches the same conclusion. The 1920s saw huge declines in federal military and transportation spending (because so much transportation was nationalized during World War I). When civilian spending programs are isolated, they show substantial growth. Throughout the 1920s the average annual growth rate of federal spending on commerce, overseen by Secretary Hoover, was 13 percent. Agricultural spending increased by more than 11 percent a year, and spending on labor interests grew more than 12 percent a year. Federal spending on education grew by more than 10 percent per year, as did spending on public improvements and the public domain. Among broad categories, the fastest growth was federal law enforcement, which averaged more than a 17 percent growth rate during the 1920s. Thus, one can see that civilian spending during the 1920s grew rapidly and that spending remained substantially higher than it ever had been before World War I. Measured by spending alone, the 1920s was a decade of major federal government growth.

Prohibition

Much of the rapid growth in the federal law-enforcement budget was due to the prohibition of alcohol, which began in 1920 with the passage of the 18th amendment and lasted until repeal by the 21st amendment in 1933. The Department of Justice enforced prohibi-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tion, along with the Customs Service, Coast Guard, and Bureau of Internal Revenue. The bureau participated because, while alcoholic beverages were illegal, nonbeverage alcohol was to be taxed. But even when illegal alcohol was discovered, as far as the Treasury Department was concerned, the reason it was illegal was that the taxes were not paid. From 1920 to 1930 bureau spending on enforcement regarding illegal alcohol rose from just over $2 million to more than $12 million, while revenues rose from just over $1 million to about $5.4 million. In no year during Prohibition did the bureau collect more than it spent on enforcement. Apparently, even the Bureau of Internal Revenue viewed the law on alcohol not as a method of generating revenue but rather of extending federal law enforcement. Prohibition is probably the most visible area in which the federal government attempted to increase its control over the behavior of Americans during the 1920s.

Federal Corporations

Early in its history, the United States incorporated the First and Second Banks of the United States. After the charter of the Second Bank expired in 1836, the federal government did not charter another corporation until 1904, when one was formed to construct the Panama Canal. Federally owned corporations proliferated during World War I, beginning with the Merchant Fleet Corporation in 1917. After the war, most of these federal corporations continued in business and lost huge sums of money. The War Finance Corporation, chartered in 1918 to help strategic industries borrow money, had its charter extended in 1921 to assist American business in general. The Federal Land Bank, Spruce Production Corporation, and Sugar Equalization Board were other federal corporations begun during the war that lived on.

These corporations provided a model for government growth that extended through the 1920s to the present day. In 1923, 12 federally owned banks were created by the Federal Agricultural Credits Act. In 1924 the Inland Waterways Corporation was established to operate vessels on the Mississippi River, and in 1929 the Federal Farm Board was established to finance agricultural price supports. Creation of those corporations was integral to the growth of the federal government during the 1920s, but their purpose was also significant. In each case they were established to help further the economic well-being of a particular group of Americans, reinforcing the federal government's transition from a guardian of liberty to an organization designed to oversee the national economy.

Agriculture

The 1920s were a difficult decade for American agriculture, largely because the world market for farm products was increasingly competitive. As a result, the decade is sometimes viewed as having favored business over agriculture. But in fact, the federal government began a number of initiatives to further the economic interests of farmers. In 1921 Congress passed tariffs on farm imports, and in 1922 the Capper-Volstead Act exempted agricultural cooperatives from antitrust laws. The Agricultural Credits Act of 1923 made it easier for farmers to get credit from the Federal Farm Loan Board. In 1926 the Department of Agriculture established a Division of Co-operative Marketing. The Agricultural Marketing Act of 1929 created the Federal Farm Board and, as noted, began federal price supports for agricultural products.

Adjusting for inflation, federal spending on agriculture expanded from $17 million (1930 dollars) in 1920 to $49 million by 1930. Whether evaluated in terms of budgets or number of federal programs, the increased support for agriculture in the 1920s was substantial. The charge that the federal government slighted agricultural interests is incorrect.

Antitrust

An examination of federal spending gives some indication of the growth of government, but regulation, though harder to measure, also had a big impact. Beginning with the Sherman Act in 1890, the federal government tried to limit the economic power of business

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

through antitrust laws. Before 1905 only 22 cases were brought under the Sherman Act. But antitrust enforcement picked up later in the decade, with 39 cases brought from 1905 to 1909. From 1910 to 1919, 134 cases were brought, indicating more vigorous enforcement. In the 1920s, the number declined slightly to 125 cases.

That decline is deceiving, however, because after the increased enforcement in the prior decade, businesses acted more cautiously. The scope of antitrust enforcement was broadened in the 1920s, and cases were brought against firms in unconcentrated industries for conduct that was not obviously in violation of the antitrust laws as previously enforced. Antitrust enforcement is another area in which the federal government increased its power—yet another reason to question the conventional wisdom that it was excessively probusiness in the 1920s.

Academic Influences

John Maynard Keynes, in a famous passage in his 1936 *General Theory of Employment, Interest, and Money,* remarked, "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else." Intellectuals also pushed the federal government to broaden its scope in the 1920s. The ideas of Karl Marx were gaining credibility and moving governments into economic matters. Perhaps just as significant, although with less ideological content, were the concepts of scientific management that were gaining credibility throughout the United States. Civil Service reform had been initiated late in the 1800s to create a more professional federal work force, and there was increasing interest in applying the principles of scientific business management to government.

In 1920 the National Bureau of Economic Research was established in cooperation with government, private foundations, and academic institutions to better measure economic performance statistically so that government could apply those principles to the economy. Secretary Hoover was a strong supporter of that effort. Indeed, many of the tenets of Keynesian economics that gained prominence during the 1930s were already part of the conventional wisdom of American economists in the 1920s.[8] The alliance of academic institutions, private foundations, and government in the 1920s was yet another aspect of the growth of the federal government during the decade.

Conclusion

The New Deal is often seen as the pivotal event in the growth of America's twentieth-century Leviathan. But the federal government has grown since its inception. The most important event in the history of federal government growth was undoubtedly the Civil War. Then, supported by the popular demand for more government involvement in the economy, the ideological foundation of the massive growth in federal spending was laid during the Progressive Era at the beginning of the twentieth century. The federal income tax made that growth in spending possible.

That the federal government grew during FDR's presidency is undeniable. But Wilson and Lincoln had already set precedents for increases in government power in wartime. Thus, the main factors underlying the growth in government were firmly in place well before the New Deal. □

1. See Randall G. Holcombe, "Constitutions as Constraints: A Case Study of Three American Constitutions," *Constitutional Political Economy*, vol. 2, no. 2 (Fall 1991): 303–328.

2. See Forrest McDonald, *The American Presidency* (Lawrence, Kan.: University Press of Kansas, 1994), for a thorough history of the evolution of the office.

3. For an excellent history of the Civil War following this theme, see Jeffrey Rogers Hummel, *Emancipating Slaves, Enslaving Free Men: A History of the American Civil War* (Chicago: Open Court Press, 1996).

4. A good reference on the subject is Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge, Mass.: Belknap, 1992).

5. In Terry L. Anderson and Peter J. Hill, *The Birth of a Transfer Society* (Stanford, Cal.: Hoover Institution Press, 1980), the origin of big government is the Supreme Court's *Munn v. Illinois* case, which allowed the state regulation of grain elevator rates.

6. An excellent study of the growth of the federal government during the twentieth century, including the effects of World War I, is Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987).

7. A more detailed exposition of this material appears in Randall G. Holcombe, "The Growth of the Federal Government in the 1920s," *Cato Journal*, vol. 16, no. 2 (Fall 1996), pp. 175–199.

8. See J. Ronnie Davis, *The New Economics and the Old Economists* (Ames, Iowa: Iowa State University Press, 1971).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Announcing a New Printing of

RELIGION AND CAPITALISM: ALLIES, NOT ENEMIES

by Edmund A. Opitz, with a foreword by Robert A. Sirico*

"...a major refutation of the Christian-Socialist, social-gospel view that has become so dominant in Western religious thought....[T]he Opitz book, with its unusual combination of economic knowledge and vigorous theism, is a major breakthrough in the scholarship of freedom."
—M. Stanton Evans, ***National Review***

This book deals with the problem of the proper ordering of our economic affairs within the framework supplied by Christian values. It was originally published in 1970 as a Conservative Book Club selection and merited reviews in *The Chicago Tribune, Christianity Today, Christian Economics, The Congregationalist, The Presbyterian Journal, Christian Scholar's Review, Journal of Church and State,* and *National Review.*

Edmund Opitz is an ordained Congregational minister, the founder and coordinator of The Remnant (a fellowship of conservative and libertarian ministers), a founder and secretary of The Nockian Society, and a contributing editor of ***The Freeman***. He served as a member of the staff of FEE from 1955 until his retirement in 1992.

In reprinting **Religion and Capitalism**, FEE honors the notable accomplishments of Edmund Opitz, and preserves an intellectual legacy for a future generation of Christian scholars.

*Father Robert Sirico is founder and president of the Acton Institute for the Study of Religion and Liberty in Grand Rapids, Michigan.

Published by **The Foundation for Economic Education, Inc.**
Irvington-on-Hudson, NY 10533

ISBN 1-57246-070-9 • 328 pages • paperback $19.95
To order, call (800) 452-3518 or fax (914) 591-8910

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

NOTES FROM FEE

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533
Tel. (914) 591-7230
Fax (914) 591-8910
E-mail: freeman@westnet.com

September 1997

The Nanny State

I've never smoked. I even dislike being near lit cigarettes. (Cigar and pipe smoke don't bother me.) Moreover, I'm sure that smoking is addictive and unhealthy. Nevertheless, the ballyhooed "tobacco settlement" announced in June leaves a taste in my mouth far more foul than would be left by choking my way through an entire carton of unfiltered cigarettes.

The foulest feature of government's long-running harassment of the tobacco industry is the elitist presumption that tens of millions of Americans are too dimwitted to be trusted with their own fates. This presumption follows from the belief that "Big Tobacco" profits by selling goods to people who really don't want to buy what they buy.

Tobacco companies are portrayed as enjoying boundless powers to warp the judgment of all but the most perspicacious souls. Smokers smoke only because each encountered once too often the Marlboro man's rugged visage or a billboard showing Joe Camel's imminent success at scoring with the jazz-club's most fetchin' camel-babe. These brushes with Madison Avenue sorcery cripple people's self-preservation faculties. Government (the argument concludes) must intervene on smokers' behalf to punish "Big Tobacco," for no earthly force except the state has the fortitude or wisdom to rescue citizens from the spell of such a mighty demon.

In short, popular sentiment against tobacco companies holds that Americans cannot make sensible choices for themselves.

But on what evidence does this dogma rest? Merely showing that cigarette smoking is both addictive and increases smokers' chances of contracting fatal illnesses does not prove that smoking is irrational. Smoking has costs, to be sure, just as almost all of life's activities have costs. But smoking also benefits smokers. Non-smokers' failure to appreciate these benefits no more proves that smoking is without benefits than does a bachelor's failure to appreciate the benefits of marriage prove that marriage is without benefits.

Of course, anti-smoking zealots cravenly deny their puritanical busy-bodiness. Instead, anti-smoking snobs issue all manner of *ad hoc* excuses in attempts to manufacture popular support for their fanatical crusade. In addition to the tired refrain that tobacco advertising hypnotizes vast numbers of otherwise sane folk, the anti-smoking lobby regularly shrieks that "children must be protected!" or that "second-hand smoke kills, too!" or that "smokers' health-care expenses are a cost to us all!"

Let's examine each of these excuses for expanding government power.

"*Children must be protected!*" Well, obviously. But families, not governments, are the proper source of protection from most of life's pitfalls. Government's job in a free society is to police against violence and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

theft rather than to be an antidote for each of life's innumerable imperfections. It's up to families to instill those values that help children avoid life's perils. Outside its legitimate domain of policing against violence, government is staggeringly klutzy. Entrusting it with the all-important but delicate task of molding children's character makes no more sense than entrusting a barroom bouncer to perform laser surgery on your eyes.

Not only will government fare worse than parents at keeping children clear of life's tempting dangers, it will simultaneously fail to treat adults as adults. Forget that banning cigarette advertising in the name of protecting children necessarily also bans such advertising for adults. More ominous is the threat that adults'—including parents'—actions will be ever more closely controlled by government on the grounds that adults influence children. With billions of dollars poured hysterically into anti-smoking campaigns "to protect kids," is it plausible that government will not deal heavy-handedly with parents and other adults whose actions diverge from the official message issued from Washington?

Government is either a nanny for none or a nanny for all.

"*Secondhand smoke kills!*" Scientific data undermine this assertion. But let's suppose that secondhand smoke *does* increase non-smokers' risks of serious illness. Would government regulation then be justified? No. Owners of private buildings have strong incentives to make appropriate trade-offs. If enough smokers wanted "smoking" restaurants, owners would supply them. Non-smokers would be free to avoid such restaurants. Likewise, if enough non-smokers wanted smoke-free restaurants (as they surely would if secondhand smoke truly were hazardous) owners would supply them. In fact, a world spared one-size-fits-all government regulation would feature a wide variety of options for both smokers and non-smokers. Different non-smokers—each with different tolerances for the risks and unpleasantness of secondhand smoke—would each choose what amounts of secondhand smoke to encounter. The case for regulation built upon secondhand smoke's alleged health risks is feeble—feeble, that is, unless one resorts to the paternalistic canard that non-smokers, like smokers, are too witless to do what's good for them.

"*Smokers' health-care expenses are a cost to us all!*" This increasingly popular anti-smoking battle cry is correct only insofar as health care is collectivized. Without government-subsidized and regulated health care, smokers' medical expenses would not be unloaded on non-smokers and taxpayers. To the extent that non-smokers' health-care costs (or taxes used to fund government-subsidized health care) are higher because smokers smoke, the best solution is to de-collectivize health-care funding.

Another problem with justifying harassment of tobacco companies on grounds that smoking increases non-smokers' expenses is that it proves far too much. Consider a good Samaritan who saves the life of a stranger severely injured in an auto wreck. Without the Samaritan's help, the stranger would have died. But because of the Samaritan's intervention, the stranger lives (say) another three years—years spent, however, undergoing expensive government-subsidized medical treatments. The Samaritan caused taxpayers' health-care costs to rise. Should government then sue the Samaritan for increasing taxpayers' health-care costs? Of course not. The alleged principle allowing government (in the name of taxpayers) to sue tobacco companies because smoking increases taxpayers' burdens is not itself sufficient grounds for penalizing tobacco companies.

But as with the secondhand-smoke argument, facts deny that smoking increases taxpayers' costs of subsidizing collectivized health care. Precisely because smokers *are* more likely to die earlier than non-smokers—and because medical expenses are highest for the very old—smoking may actually *reduce* the amounts that taxpayers pay to fund collectivized medicine.

I have my own proposed tobacco settlement. Let's recognize that smoking is voluntary. Let smokers enjoy their cigarettes, and let tobacco companies be regulated only by the market by putting an end to government's odious molestation of smokers and tobacco companies.

Donald J. Boudreaux
President

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

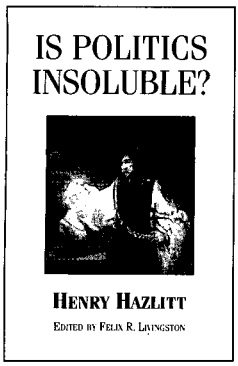
LABOR DAY BOOK SALE

Free with each order: Hans Sennholz's pamphlet "Man Must Work"

	Regular	**Sale**
E. Calvin Beisner PROSPERITY AND POVERTY A compassionate discussion of the visible differences in income and wealth.	$14.95	**$12.95**
Clarence B. Carson THE FLIGHT FROM REALITY An excellent analysis of our intellectual flight from economic and political reality.	15.95	**11.95**
Abraham Ellis THE SOCIAL SECURITY FRAUD The author brilliantly dissects the inherent problems surrounding America's Social Security system.	14.95	**10.95**
Burton W. Folsom, Jr., editor THE INDUSTRIAL REVOLUTION AND FREE TRADE This anthology discusses the changing social and economic thought that gave birth to the Industrial Revolution and the tremendous improvements in working and living conditions that followed.	14.95	**10.95**
***Freeman* Classics** AMERICAN UNIONISM: FALLACIES AND FOLLIES The intellectual origins and economic implications of the union ideology.	14.95	**10.95**
FREE TO TRY The entrepreneur is celebrated as the moving force of economic activity and progress.	14.95	**10.95**
UP FROM POVERTY Powerful essays reflecting on the ills of public assistance, which must be paid for by that chronically Forgotten Man, the taxpayer.	14.95	**10.95**
F. A. Harper WHY WAGES RISE An incisive discussion of the economic principles that determine wage rates.	8.95	**6.95**
Hans F. Sennholz THE POLITICS OF UNEMPLOYMENT *((hardcover)* A brilliant examination of various programs and policies leading to unemployment.	24.95	**19.95**
Gustavo R. Velasco LABOR LEGISLATION FROM AN ECONOMIC POINT OF VIEW *(hardcover)* A refutation of spurious arguments about labor legislation and unionization.	6.95	**4.95**

Sale ends September 30, 1997. All titles are paperback unless otherwise noted.
Postage and handling: Please add $3 per order of $25 or less; $4 per order of $26-$50; $5 per order of more than $50. Send your order, with accompanying check or money order, to:
FEE, 30 South Broadway, Irvington-on-Hudson, NY 10533. Visa and MasterCard telephone and fax orders ($10 minimum) are welcomed: (800) 452-3518; fax (914) 591-8910.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



NEW FROM FEE !

Is Politics Insoluble?

by Henry Hazlitt

Edited by Felix R. Livingston

During the ninth decade of a long and productive life, Henry Hazlitt (1894–1993) made plans to write a treatise on political science. In 1978 he prepared a provisional outline for a book that would have the title *Is Politics Insoluble?* Hazlitt planned to include chapters on legislation, government growth, centralization of power, and alternative forms of government. Other chapters would touch on ideas of prominent political thinkers, including Plato, Aristotle, John Locke, America's Founders, James and John Stuart Mill, Herbert Spencer, T. H. Huxley, Wilhelm von Humboldt, Henry Maine, and Robert Nozick.

In a 1984 letter confirming the donation of his personal library to The Foundation for Economic Education, Hazlitt wrote: "one particular book that I am still planning . . . is already half written: *Is Politics Insoluble?* The title chapter was published in *Modern Age*, and about four or five additional chapters in *The Freeman*. I hope to do up to perhaps a half dozen more to make a complete book." Unfortunately, Hazlitt never finished the project and eight of the outline's fourteen chapters remained unwritten at the time of his death.

Now, The Foundation for Economic Education is proud to make the six essays—along with four other Hazlitt pieces—available in one collection. Edited, and with an introduction by Felix R. Livingston, Hazlitt's essays remind us that just as there were two Greeces in history, constitutional Athens and despotic Sparta, so are there two Americas. The first is bound by the rule of law and upholds the private property order and its attendant obligation to self-reliance and self-discipline. In this America, "every man, whoever he is, can act best and live happily." But there is also a second America. Its laws go far beyond those that are "just, definite and minimal," and its judges twist precedent to transform judicial decision into judicial legislation. In the second America, opportunities to "act best" are narrowed and hopes to "live happily" are dashed. This anthology will help readers understand how the first America can be realized and how dangers inherent in the second America can be diminished.

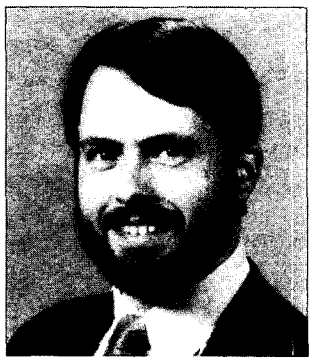
Felix R. Livingston, vice president of The Foundation for Economic Education from 1994 to 1997, is dean of institutional research at Washington and Jefferson College in Pennsylvania.

Published by **The Foundation for Economic Education, Inc.**
30 South Broadway, Irvington-on-Hudson, NY 10533

ISBN 1-57246-067-9 • 152 pages • paperback $14.95

Visa and MasterCard orders: 1-800-452-3518

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Military Follies and Memorial Day Memories

Washington, D.C., is ever the city of contradictions. Eloquent speeches about freedom by legislators voting to limit liberty. Emotional promises to aid the needy from policymakers whose actions cause poverty and destroy families. Heartfelt tributes to military veterans from politicians who treat soldiers as gambit pawns in a global chess game.

The latter becomes particularly stark on Memorial Day, always the most poignant of holidays. It is a celebration, but of a peculiar kind: remembering the enormous sacrifice by millions of Americans who have served, and all too often died, in war. And such sacrifices may not be over.

Some conflict is probably inevitable given a world full of imperfect nation-states headed by sinful human beings. But today, mercifully, the dangers facing the United States are slight. The primary risks to Americans result from Washington's continuing desire to intervene around the globe irrespective of the nation's fundamental security interests.

Memorial Day this year, like those before it, had the obligatory presidential visit and wreath-laying at the Tomb of the Unknown Soldier. The rhetoric was also the same—a paean to past soldiers' willingness to safeguard Americans' freedom. Although the international record of the United States compares well to that of other nations, it remains a mix of the good, the bad, and the ugly.

America has fought four ugly wars, ones at least partially inspired by the sort of base motives that Washington usually ascribes to other countries. Another four were bad, undercutting, rather than promoting, the national interest. Only two can claim to be good.

Barely three decades after winning its independence, the United States found itself again at war with Great Britain. Washington had legitimate grounds for war—British warships routinely "impressed" (a form of government kidnapping) American citizens off U.S. vessels in order to man its fleets. But the most obvious trigger for war occurred in 1807 when a British warship fired on an American ship that refused to stop and be searched. Five years then passed. When war came in 1812, the so-called war hawks seemed motivated more by the prospect of seizing Canada than of righting maritime wrongs.

In 1846 came war with Mexico, perhaps America's most unjust conflict. Criticized at the time by future Civil War figures Abraham Lincoln, Ulysses S. Grant, and Robert E. Lee, the conflict was a war of aggression to wrest the territory now comprising California, Arizona, and New Mexico from America's southern neighbor. The bravery of the U.S. soldiers cannot compensate for President James Knox Polk's dubious motives.

America came of age as an imperial power when it defeated Spain in 1898. Although popular opinion was aroused through sensa-

Mr. Bandow, a nationally syndicated columnist, is a senior fellow at the Cato Institute and the author and editor of several books, including Tripwire: Korea and U.S. Foreign Policy in a Changed World.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tionalistic (and often false) reporting of the brutal conflict between Spanish forces and Cuban guerrillas, President William McKinley wanted control of the Philippines and future president Theodore Roosevelt simply wanted war. That more than selfless concern for Cuba's liberation animated America is evident from President McKinley's insistence that Spain cede Guam and the Philippines to America.

Even uglier than the Spanish-American War was the three-year conflict that followed as Washington defeated Filipino nationalists. Nothing except national greed motivated Washington to suppress a foreign independence movement with policies even crueler than those used by Spain in Cuba. Two hundred thousand Filipinos died in the devastating conflict, conducted for the sole purpose of preserving a Pacific outpost for American military forces.

The Civil War was bad. Although the welcome end of slavery has given an enduring moral gloss to the conflict, President Abraham Lincoln repeatedly emphasized that union rather than abolition was his goal, and the outer four southern states, Arkansas, North Carolina, Tennessee, and Virginia, seceded only after Lincoln called out troops to invade the other seven. Any political union should be voluntary; no such ties are worth 630,000 lives. Peaceful separation was the right solution.

American participation in World War I, an imperial slugfest devoid of relevance to the United States, was equally stupid. The great anti-Semitic despotism of Tsarist Russia and revenge-minded France (which had actually declared war first in the Franco-Prussian War some four decades earlier) were as much at fault as Wilhelmine Germany and unstable Austria-Hungary in starting the war. The supposed chief victim, Serbia, was a blood-stained regime that used terrorism against neighboring Austria-Hungary. The formal justification for American entry in the conflict—to protect the right of U.S. citizens to travel on merchant ships of a belligerent power carrying munitions through a war zone—was simply inane. In fact, President Woodrow Wilson wanted America in so he could reorder the world. Washington should have stayed out.

There were no interests at stake that warranted U.S. intervention in Vietnam. That Ho Chi Minh was not a second Hitler and Asia was not ready to fall to communism is evident from the fact that two decades after America's humiliating ejection from Vietnam, international hegemonic communism has disappeared and the entire region, including Vietnam, is looking toward the United States.

Similarly bad was the Gulf War. There was no compelling reason to make the region safe for monarchy, since Iraq's threat to the world's oil supply was overstated. And the oil embargo was sufficient to deny Baghdad any benefit from its conquest. Today the United States remains ensnared in the Persian Gulf, standing behind odious regimes like that of Saudi Arabia.

America's best conflicts were World War II, against potential hegemons that actually attacked (in the case of Japan) and declared war on (as did Germany) the United States. The Korean War can claim some legitimacy not because Washington had any fundamental interest in the Korean peninsula, but because America had helped bring about the conditions that led to the war and could not easily walk away.

With such a dubious record of sending good people to fight for bad causes, Washington should be less promiscuous today in committing American servicemen to defend other countries. Yet U.S. soldiers are currently stationed in the Balkans, attempting to put back together the Humpty Dumpty state of Bosnia. A bipartisan coalition wants to expand NATO deep into Central and Eastern Europe, so Americans will defend the borders of the Czech Republic, Poland, and who knows who else. Policymakers are similarly committed to staying in East Asia, apparently forever, even though America's allies are now all well able to defend themselves.

The sad reality is that many of the enormous sacrifices made by so many young Americans had nothing to do with freedom. This was not the fault of those who fought and died, but of the political leaders who sent them. For two centuries American politicians have been treating the lives of American servicemen far too cheaply. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Market-Based Environmentalism vs. the Free Market

by Roy E. Cordato

People on both the left and right are realizing that direct regulation of production and market activities—"command and control"—is too costly. Yet free markets and the outcomes they are likely to generate continue to be unappreciated. To the extent that policymakers value markets, it is not because markets maximize liberty and social welfare but because they can be manipulated to produce centrally planned ends.

That is the basic argument for market-based environmentalism (MBE). In spite of its calls for decentralized decision-making, the purpose of MBE is to subvert freely made decisions by coercively altering incentives. Thus, most MBE policies should be viewed with suspicion, if not disdain, by those whose primary interest is to advance individual liberty. (MBE should not be confused with free-market environmentalism, which is not subject to these criticisms.)

Markets and the Environment

The standard view of environmental problems is that they are inherent in a free society. If people are left free to pursue their own self-interest—to produce and consume whatever they want, how and when they want it—the result will be polluted air and waterways, littered streets, and depleted natural resources. Pollution and environmental degradation are often cited as evidence that Adam Smith was wrong. People pursuing their own self-interest may not advance the well-being of society.

Advocates of MBE fully subscribe to this view. As MBE advocates Robert Stavins and Bradley Whitehead argue, "policies are needed to . . . harness the power of market forces . . . to link the . . . forces of government and industry."[1]

That view, unfortunately found in many economics texts, misunderstands the nature of both a free society and a free-market economy. Environmental problems occur because property rights, a prerequisite of free markets, are not identified or enforced. Problems of air, river, and ocean pollution are all due to a lack of private property rights or protection. Since clarifying and enforcing property rights is the basic function of government in a free society, environmental problems are an example of government failure, not market failure.

In a free society, environmental problems should be viewed in terms of how they impinge on human liberty. Questions should focus on how and why one person's use of resources might interfere with the planning and the decision-making abilities of others. Since people can legitimately make plans and

Dr. Cordato is the Lundy Professor at Campbell University in Buies Creek, North Carolina. For a much more detailed discussion of this issue see Roy E. Cordato, "Market-Based Environmentalism and the Free Market: They're Not the Same," The Independent Review, *vol. 1, no. 3 (Winter 1997).*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

decisions only with respect to resources that they have rights to, environmentalism that has human well-being as the focus of its analysis must center on property rights.

From this perspective, environmental problems arise because different people attempt to use the same resource for conflicting purposes. This can occur only if the property rights to that resource are not clear or are not being enforced. Two simple examples can highlight the possibilities. Imagine a community that has a cement factory that emits cement dust into the air. The dust causes people in the community to have to wash their cars and house windows more frequently than otherwise and creates respiratory problems for those who have to breathe it. That is clearly a property-rights enforcement problem. Note that the problem is not that the dust is emitted into the air but that it lands on people's property—their cars, houses, and lungs—and interferes with their use of it. In this case, ownership rights are clearly defined, but are not enforced.

Another example might involve a public waterway, such as a river. Along the river, there is a factory that dumps the waste from its production process. Downstream are homeowners who use the river for recreational purposes, possibly fishing or swimming. The factory waste renders the river unsuitable or less useful for those purposes. The central problem here is that the rights to the river are not clearly defined. The public-policy issue involves who should have those rights or how they should be divided. It should be noted that the idea of privatizing rivers or sections of rivers is not new. Early American Indian tribes had clearly defined and enforced property rights to sections of many rivers. State governments nullified those rights.

Since free markets require well-defined and enforced property rights, the solution to environmental problems lies in extending capitalism, not restricting it.

Altering Incentives

Market-based environmentalism has little in common with this approach. Under MBE, government authorities deem a level of effluent emissions, the amount of recycled paper in grocery bags, or some other outcome a desirable goal. Individual behavior is then manipulated to achieve the goal. MBE policies are meant to control markets by altering the incentive structure—that is, individual decision-making—in order to thwart the outcomes of free-market activity.

Even the free-market advocate and chairman of President Reagan's Council of Economic Advisers, Murray Weidenbaum, has argued, "the environmental pollution problem is not the negative task of punishing wrongdoers. Rather, the challenge is a very positive one: to alter people's incentives."[2]

The two most common MBE approaches are excise taxes and "tradable permits." The excise tax is a direct implication of traditional welfare economics, which argues that pollution is evidence of "market failure" in which prices fail to incorporate the full "social cost" of production; that is, the external costs associated with the pollution are left out. Since, under this theory, markets fail to generate the correct price and output, an excise tax equivalent to the pollution costs would "correct" for the failure. The problem is that this entire analysis is both practically and conceptually unworkable. The concept of social cost, if meaningful at all, would be the sum of the pollution costs experienced by all the individuals in the community. Yet in reality, each person's costs are strictly personal and subjectively experienced. They cannot be measured and certainly cannot be added to the "pollution costs" experienced by others.

Furthermore, because any tax would cause a complete reallocation of resources in the economy, it could not possibly be known whether the tax would end up making society as a whole better or worse off. Such policies ignore not only sound economics but also sound science. The result is proposals that promote the political agenda or aesthetic values of policymakers and interest groups.

For example, the World Resources Institute (WRI) has published a study claiming that the use of automobiles imposes $300 billion annually in external costs on society.[3] That figure includes the "costs" of global

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

warming, even though decades of satellite data actually show mostly global cooling, and such pure aesthetics as the unsightliness of shopping malls and the loss of open space due to urban sprawl. The proposed remedies are all "market based" and meant to "alter people's incentives." They include hefty new taxes on gasoline, user fees for roads, and forcing all shopping malls to charge for parking.

Tradable permits (TPs), while often referred to as a "property rights" approach, are not intended to expand property rights but to rearrange and restrict existing ones to achieve an "environmentally correct" and politically determined result. This approach begins by identifying an undesirable activity and then restricting it by issuing a fixed number of permits to pursue the activity. The permits then can be bought and sold in a market setting. Firms can boost their revenues by reducing the level of the activity in question and selling permits to other firms that wish to increase their activity beyond what their permits allow. While TPs "harness" market forces to achieve politically determined environmental goals, they are in fact disdainful of truly free markets based on the recognition and enforcement of property rights.

TPs simply legalize trespass to the extent they allow actual rights-violating pollution to continue, for example, allowing cement companies in the example above to pollute without compensation to victims. As Robert McGee and Walter Block have argued, "perhaps the major fault with trading permits is that . . . they entail a fundamental and pervasive violation of property rights."[4]

In other instances, they simply create new kinds of rights in an attempt to centrally plan industries in the name of environmental protection. The Progressive Policy Institute, President Clinton's favorite think tank, is calling for tradable permits to promote recycling. The government would issue permits to newsprint companies limiting them to a certain level of nonrecycled materials in their paper. Companies could sell their permits if they increase the recycled content. Those proposals exist, even though, as reported in the *Washington Post* and the *Wall Street Journal*, too much recycling may be causing increased pollution and waste of resources. Such policies are best viewed as an attempt to impose personal attitudes, such as a disdain for landfills, on society.

Market-based environmentalism and the free market are not the same. Free-market policies, even with respect to the environment, would not have "environmental protection" per se as their central focus. Instead the focus would be on resolving conflicts among human beings as they put natural resources to use. An important by-product of that would be a cleaner environment and a more conscientious stewardship of resources.

MBE sees human activity as something that must be harnessed by the government, albeit through market incentives. The conflict, from this perspective, is not among human beings but between them and the natural environment, with human beings wearing the black hats. □

1. Robert Stavins and Bradley Whitehead, *The Greening of American Taxes: Pollution Charges and Environmental Protection* (Washington, D.C.: The Progressive Policy Institute, 1992), p. 3.

2. Murray Weidenbaum, "Reforming Government Regulation to Promote Prosperity," *The World and I*, August 1992, p. 497.

3. James MacKenzie, Roger Dower, and Donald Chen, "The Going Rate: What it Really Costs to Drive," World Resources Institute, June 1992.

4. Robert McGee and Walter Block, "Pollution Trading Permits as a Form of Market Socialism and the Search for a Real Market Solution to Environmental Pollution," *Fordham Environmental Law Journal*, vol. 16 (1994): 58.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Mises's Legacy for Feminists

by Wendy McElroy

The name of the eminent Austrian economist Ludwig von Mises does not commonly arise in feminist circles, which tend to view the free market as an institution through which men as a class oppress women as a class. If the subject of Mises ever did arise, the political incorrectness of his observations on female nature would be likely to create more, not less, coldness. For example, in *Socialism: An Economic and Sociological Analysis*, he wrote, "It may be that a woman is able to choose between renouncing either the most profound womanly joy, the joy of motherhood, or the more masculine development of her personality in action and endeavor. It may be that she has no such choice."[1]

From these fighting words, Mises moved into political commentary about the feminist movement itself. He argued that if feminism merely sought the economic and legal freedoms that permit women to become self-determining, then feminism was no more than a "branch of the great liberal movement, which advocates peaceful and free evolution." On the other hand, if feminism sought to alter the "institutions of social life under the impression that it will thus be able to remove the natural barriers," then feminism "is a spiritual child of Socialism."[2] After all, one of socialism's characteristics is its attempt to reform nature and natural laws by reforming social institutions. One illustration of that is the attempt to reform supply and demand through a planned economy.

Ms. McElroy is author of Sexual Correctness: The Gender-Feminist Attack on Women *(McFarland, 1996).*

In some respects, the liberal feminism that arose during the early 1960s—called "second wave feminism"—resembled what Mises described as a branch of classical liberalism. Although the movement embraced a profound bias against capitalism, much of the thrust of liberal feminists was aimed at removing the legal barriers and inequities confronting women. The call for legal equality reached its peak in March 1978 when 100,000 demonstrators marched on Washington, D.C., to express their determined support for the ultimately doomed Equal Rights Amendment (ERA). Sixties feminists tended to view men as recalcitrant partners who needed to be reminded of their social responsibilities: from recognizing women's ability in the workplace to sharing the task of parenting at home. But, by current standards, the hostility expressed toward men in the 1960s was muted. In the spirit of acknowledging the presence of male members, the National Organization of Women even changed its name to the National Organization for Women.

Gender Feminism

Meanwhile, in the background, another brand of feminism was hammering out a distinct ideology that Mises would have considered to be wholly "a spiritual child of Socialism." In her book *Who Stole Feminism?* Christina Hoff Sommers referred to that ideology as "gender feminism" because, on the basis of gender, it considers men and women to be separate and necessarily antag-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

onistic classes. Gender feminists conclude that all the ills afflicting women—from date rape to the wage gap—flow from the male system of total dominance, called patriarchy, which is expressed partly through capitalism. The pioneering gender theorist Adrienne Rich defined patriarchy in her book *Of Woman Born* as "the power of the fathers," that is, the "social, ideological, political system" through which men control women "by force, direct pressure or through ritual, tradition, law, and language, customs, etiquette, education, and the division of labour."[3]

Regarding the emotional impact of patriarchy, Andrea Dworkin wrote in *Our Blood*, "Under patriarchy, every woman is a victim, past, present, and future. Under patriarchy, every woman's daughter is a victim, past, present, and future. Under patriarchy, every woman's son is her potential betrayer and also the inevitable rapist or exploiter of another woman."[4] Men were no longer merely recalcitrant partners. Gender feminists redefined the opposite sex into a distinct political class whose interests were inherently antagonistic to women. In the theory that followed, Dworkin pronounced all men to be rapists. Kate Millett called for the end of the family unit. Catharine MacKinnon declared marriage, rape, and prostitution to be indistinguishable from each other.

Viewed through the political lens of gender feminism, maleness ceased to be a biological trait and became a cultural or ideological one. In *Toward a Feminist Theory of the State*, MacKinnon insisted, "Male is a social and political concept, not a biological attribute."[5] In *Our Blood*, Dworkin agreed, "In order to stop . . . systematic abuses against us, we must destroy these very definitions of masculinity and femininity, of men and women."[6] Maleness could not be reformed. It needed to be eliminated.

With the death of the ERA and the consequent disillusionment of liberal feminists, the ideology of gender feminism came to the forefront and began to exert a defining influence on many issues. Indeed, it is not an exaggeration to state that much of current mainstream feminism is based upon gender feminism's version of class analysis. It is on this point of theory that Mises provides penetrating insights on modern feminism.

Class Analysis and Caste Analysis

A class is nothing more than an arbitrary grouping of entities that share common characteristics as determined from a certain epistemological point of view. In short, what constitutes a class is defined by the purposes of the definer. For example, a researcher studying drug addiction may break society into classes of drug users and nonusers. Perhaps he will further establish subclasses within drug users based on the particular substance used, the frequency of use, or some other factor salient to the researcher's purposes. Classes can be defined by almost any factor considered salient to the definer, such as income level, hair color, age, nationality, sexual habits, and so on.

But, for gender feminists, class analysis is more than a mere epistemological tool. It is converted into an ideological tool. That is, members of the class "male" do not merely share an identity based on certain physical characteristics, they also share specific political and social interests based on that identity. The foremost interest is to keep women, as a class, under their control. Thus, the concept of gender as a class becomes so significant that it is a causative factor: it predicts and determines how the members of the class will behave.

Class analysis is widely associated with Karl Marx, who popularized it as a political approach to predicting interests and behavior. For Marx, the salient political feature defining a person's class was his relationship to the means of production: was he a capitalist or a worker? This is a form of relational class analysis, which describes a class by its relationship to an institution, in this case the capitalist system.

But the concept of class has a deep history within individualist thought, which predates Marxism. In America, for example, the Jeffersonian John Taylor of Caroline argued that his contemporaries who were involved in banking schemes constituted a "paper aris-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tocracy"—a special class within society that benefited at the expense of others. Franz Oppenheimer's key distinction between those who use the political means to achieve their goals and those who use the economic means was disseminated through Albert Jay Nock, and it still forms the current conception of class analysis within individualist thought. The class is described in terms of its relationship to the institution of state power: Namely, is any given individual one of the rulers or one of the ruled? Does he use the political means or become its victim?

Twentieth-century American society poses a problem for Marxist analysis, which believes in fixed class interests—the inherent hostility between workers and capitalists. American society is almost defined by the fluidity of its class structure and interests. People frequently reclassify themselves from worker to capitalist, from lower to upper class. Past cultures, such as pre-revolutionary France, drew clear legal lines between the classes and recognized different rights for each of them. Even in eighteenth- and nineteenth-century America—sometimes touted as a "classless society"—categories of people were denied such legal privileges as voting. As the law became universally applied, class barriers fell.

The fluidity of modern American society poses no theoretical problem for Mises's concept of class. To Mises, class was a matter of shared identity, not of shared interests. Thus, the "working class" may share certain objective economic realities, but this does not determine or predict the subjective values and interests of its members. Indeed, in a free market with legal equality, he expected to see a constant shift in the class structure. In *The Anti-Capitalistic Mentality*, after defining the "three progressive classes" of society as "those saving, those investing the capital goods, and those elaborating new methods for the employment of capital goods," Mises explained: "Everybody is free to join the ranks of the three progressive classes of a capitalist society. These classes are not closed castes. Membership in them is not a privilege conferred on the individual by a higher authority or inherited from one's ancestors. These classes are not clubs, and the ins have no power to keep out any newcomer."[7]

Mises called static classes that labor under legal disabilities "castes." Castes are created when legal barriers are raised to cement people into a class and prevent social mobility. In *Socialism*, he expanded what he meant by castes, or "estate-members": "Estates were legal institutions, not economically determined facts. Every man was born into an estate and generally remained in it until he died. . . . One was master or serf, freeman or slave, lord of the land or tied to it, patrician or plebeian, not because one occupied a certain position in economic life, but because one belonged to a certain estate."[8] In essence, castes are legislated classes that create a static society.

In *The Free and Prosperous Commonwealth*, Mises defined a status society as one "constituted not of citizens with equal rights, but divided into ranks vested with different duties and prerogatives."[9] It was under a caste system, not a class one, that necessary conflicts arose between legal categories of people who were accorded different privileges and disabilities. Thus, the phrase "class warfare" is a mistaken one: it should be "caste warfare."

Moreover, so-called "class warfare" contains further confusion. For example, the phrase usually assumes that there is an identity of interests among the members of the separate classes. Yet as Mises explained, a common identity does not necessarily mean common interests since individual members of a class will tend to give their own individual interests priority. Ironically, this may well lead to competition among "class" members, rather than commonality. Mises wrote: "Precisely because 'class comrades' are all in the same 'social situation,' there is no identity of interests among them, but rather competition. The worker, for example, who is employed under better-than-average conditions has an interest in excluding competitors who could reduce his income to the average level. . . . What has been done by the labor parties in this regard in every country during the last few years is well known."[10] Mises raised fundamental questions regarding the concepts of "class interest" and "class warfare."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Do shared interests even exist apart from the sum of the individual self-interests of each member? If objective shared interests do exist, do they take priority over the subjective value judgments of each member? If they do not have priority, what value do "class interests" have in allowing us to predict the behavior of a group? Let us consider these questions with specific application to gender feminist ideology.

Class Conflict Within Gender Feminism

According to this ideology, gender is the politically salient factor that defines a class—what Mises would call a caste—in terms of its relationship to the institution of patriarchy. Men share not only an identity but also political and social interests, which are in necessary conflict with the identity and interests of women. The identity of the class may be based on physical characteristics, but the interests of the class are ideological. Consider the paragraph on rape that closes Susan Brownmiller's introduction to *Against Our Will*: "Man's discovery that his genitalia could serve as a weapon to generate fear must rank as one of the most important discoveries of prehistoric times, along with the use of fire. . . . It is nothing more or less than a conscious process of intimidation by which *all men* keep *all women* in a state of fear."[11]

Here a shared identity based on a shared manhood leads all men to a shared interest in using rape to intimidate all women. Mises would argue that the only valid step in the foregoing ladder of logic is that men, as a class, share a common anatomy. He would staunchly dispute that all members of the male class would evaluate that characteristic identically or use it in a collective, rather than an individualistic, manner. Indeed, the fact that men compete for women would undoubtedly lead to many sexual approaches, including protection and familial affection. Mises questioned the very basis of class-conflict theory, which rests upon the assumption that what benefits one class must injure another. As he pointed out, "the scientific significance of a concept arises out of its function in the theories to which it belongs; outside the context of these theories it is no more than an intellectual plaything."[12]

Mises's theory of how society functions is based on classical liberal thought, which considers cooperation to occur only when both sides benefit from the exchange. Indeed, the very perception of benefit is what impels each side to act. Even the infamous hostility between workers and capitalists dissolves in a situation of equal individual rights because each group has no ability to coerce cooperation from the other. Only when force is introduced into the exchange do group conflicts necessarily arise.

Gender feminism is based on different theory: MacKinnon has referred to the ideology as "post-Marxist," meaning that it adopts many aspects of Marxism but rejects its insistence that economic status, rather than gender, is the salient political factor determining a class. Thus, gender feminism incorporates such socialist ideas as "surplus labor," by which human cooperation is viewed as the process of one group taking benefits from another group. To rectify the class inequity it is necessary to do precisely what the free market forswears—to forcibly intervene in order to assure a "socially just" outcome. The law must act to benefit one class at the expense of the perceived self-interest of another class. Specifically, the law must act to benefit women, who have been historically disadvantaged, at the expense of men, who have been the oppressors. In Misesian terms, women cease to be a class with shared identity based on characteristics and become a caste—a group with shared political and social interests that are legally protected. This form of intervention is epitomized by such measures as affirmative action and comparable worth.

An Individualist Feminist with Doubts About Class Theory

The form of feminism that draws most heavily upon classical liberalism is undoubtedly individualist feminism, which traces its roots as an organized force to the abolitionist movement in America. As such a feminist, I

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

question the value of the concept of class itself within the intellectual framework of individualism. One reason is the substantive tension that seems to exist between the concept of class and other theories within classical liberal thought.

Consider subjective value theory as painted by Austrian economists, who argue that it is not possible—even on an individual level—to predict how anyone will value a certain object or opportunity, or what anyone will perceive to be in his own self-interest. Only in retrospect, by examining how the individual acted on his choices, can you judge what that person's perceived interests were. That is what is meant by the phrase "demonstrated preference." Even then, having analyzed a person's former demonstrated preferences, it is not possible to predict how he will perceive his interests in the future.

Subjective value theory seems to argue against there being a predetermined interest of any sort, especially of the sort so divorced from subjective individual evaluation as that of an objective class interest. In short, two people who share identical class characteristics, for example, retiring factory workers at Ford, may have extremely different perceptions of self-interest and, so, manifest entirely different behavior.

This reservation about class theory hearkens back to a question raised by Mises's commentary: Does it even make sense to talk about class interests existing apart from the self-interest of the individual members of that class? Does it even make sense—on anything other than an epistemological or cognitive level—to deal with a class as though it were an empirical entity apart from its members?

Yet, despite such reservations, the concept of class obviously has value in approaching ideas and understanding certain aspects of social interaction. The "working class," for example, does describe a particular economic situation and distinguish it from others. The question becomes: does identifying the members of a class provide any information about the interests of that class as a whole?

In at least one sense, it clearly could. Marxist and gender-feminist theory claim that because you belong to a certain class you share certain interests that predict future behavior. But it is possible to argue the inverse. That is, because a group has demonstrated similar preferences or behavior, they belong to the same class. But a class membership that depends entirely on past behavior may well have little predictive value for the future.

For example, consider the ruling class, which uses the political means. According to their demonstrated preferences, they may seem to share an interest in, for example, protecting domestic industry through tariffs. Moreover, they may also share loose ties to state institutions that protect and enforce those interests, just as strangers who use the economic means share ties to the institution of the free market. In that sense, the class interests of the ruling class may be said to be institutionalized.

Yet with an apparently strong structure of class interest, we cannot predict the future preferences that individual members of the ruling class will demonstrate. History is replete with people who act against their predicted class interests. Human beings routinely act out of conscience, obedience, religious conviction, passion, whim, drunkenness—the list of the causative factors that can determine behavior seems endless.

Perhaps the most valuable function of class analysis within the framework of individualist thought is as a methodological tool to understand history rather than to predict the future. For example, a researcher might observe that a particular person was both an antebellum slave owner and a voting member of society. His class—or, in this case, caste—affiliation might provide insight into his voting pattern. Yet, even here, a cause-and-effect relationship cannot be drawn between his caste affiliation and his behavior since other factors, such as a sincere religious conviction, might have been causative.

In short, the individualist tradition, within which individualist feminism is lodged, seems to allow limited scope for the concept of class analysis. The scope is so limited, in fact, that the concept of class may be stripped of its predictive and causative value. For some, this

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

may mean losing a powerful tool of analysis. On the bright side, however, this means there is no necessary conflict between the sexes. The fact that men share certain physical characteristics says nothing about their individually perceived self-interests, or about how they will act in the future. Even if it could be demonstrated that men and women—as classes—have tended to clash historically, this says nothing about whether we must remain enemies in the future. □

1. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (London: Jonathan Cape, 1951), p. 100.
2. *Ibid.*, p. 101.
3. Adrienne Rich, *Of Woman Born: Motherhood as Experience and Institution* (London: Virago, 1977), p. 57.
4. Andrea Dworkin, *Our Blood: Prophecies and Discourses on Sexual Politics* (New York: Harper and Row, 1976), p. 20.
5. Catharine A. MacKinnon, *Toward a Feminist Theory of the State* (Cambridge, Mass.: Harvard, 1987), p. 114.
6. Dworkin, p. 48.
7. Ludwig von Mises, *The Anti-Capitalistic Mentality* (Princeton, N.J.: D. Van Nostrand, 1956), p. 40.
8. Mises, *Socialism*, p. 332.
9. Ludwig von Mises, *The Free and Prosperous Commonwealth: An Exposition of the Ideas of Classical Liberalism* (Princeton, N.J.: D. Van Nostrand, 1962), p. 158.
10. *Ibid.*, p. 164.
11. Susan Brownmiller, *Against Our Will: Men, Women and Rape* (New York: Bantam Books, 1976), p. 5. Emphasis in the original.
12. Mises, *Socialism*, p. 329.

Effective with the December issue, Sheldon Richman will be guest editor of *The Freeman* for the next several issues, announced Donald Boudreaux, president of the Foundation for Economic Education. Mr. Richman is currently vice president of policy affairs with The Future of Freedom Foundation in Fairfax, Virginia.

Mr. Richman is author of *Separating School and State: How to Liberate America's Families* and the forthcoming *Your Money or Your Life: Why We Must Abolish the Income Tax*, published by The Future of Freedom Foundation.

He was formerly senior editor both at the Cato Institute and the Institute for Humane Studies at George Mason University.

He has written widely on a variety of topics, his work appearing in the *Washington Post*, *Wall Street Journal*, *American Scholar*, *Education Week*, *Regulation*, and *The Freeman*, among others. He is a contributor to *The Fortune Encyclopedia of Economics*.

A former newspaper reporter, Mr. Richman was graduated from Temple University in his hometown of Philadelphia.

In a letter to current and prospective writers, Mr. Richman said he wished "each issue of *The Freeman* to make clear to readers how exciting the cause of liberty really is. . . . A chief mission of the magazine will be to illustrate the radical nature of property rights. . . . *The Freeman* must drive home the fact that property is what makes self-determination possible. Without it, everyone is a tenant and employee of the state."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Lafayette: Hero of Two Worlds

by Jim Powell

The freedom fighter Marquis de Lafayette changed history. He helped defeat the British at Yorktown, winning American independence. In France, he helped topple two kings and an emperor. Jean-Antoine Houdon, the great eighteenth-century sculptor who created busts of many great heroes, dubbed Lafayette "the apostle and defender of liberty in the two worlds."

Cornell University historian Stanley Idzerda remarked, "Lafayette knew only one cause during his long lifetime: human liberty. As a young man he risked his life in war and revolution for that cause. In middle age, living under the barely concealed dictatorship of Napoleon, a regime he detested, he recalled how he had been wounded, denounced, condemned to death, despised, imprisoned, beggared, and exiled—all in the service of human liberty. Poor, powerless, and with no prospects at that time, Lafayette asked, 'How have I loved liberty? With the enthusiasm of religion, with the rapture of love, with the conviction of geometry: that is how I have always loved liberty.'"

Lafayette was the principal author of the Declaration of the Rights of Man and of the Citizen. "There exist certain natural rights inherent in every society of which not only one nation but all the nations together could not justly deprive an individual," he insisted. He maintained these rights aren't "subject to the condition of nationality," and they include "freedom of conscience and opinions, judicial guarantees, the right to come and go." He promoted free trade. He fought for religious toleration and freedom of the press. When the French government harassed immigrants, he sheltered many in his own house. He spent a lot of his own money to help free slaves in French colonies.

He did more than anybody else to link friends of liberty everywhere. He was in touch with Thomas Jefferson, Thomas Paine, George Washington, Benjamin Franklin, James Madison, James Monroe, John Quincy Adams, Daniel Webster, Andrew Jackson, and James Fenimore Cooper, among other Americans. He was a friend of Pierre Samuel Du Pont de Nemours, Germaine de Staël, Benjamin Constant, and Horace Say in France. He corresponded with Charles James Fox in Britain and Simón Bolívar, who helped secure the independence of Venezuela, Colombia, Ecuador, Peru, and Bolivia. Lafayette encouraged Italian liberals, Spanish constitutionalists, and Greek and Polish freedom fighters.

Lafayette stood out in a crowd. He was tall and bony with green eyes. "Pale, lanky, red-haired, with a pointed nose and receding forehead," added biographer Vincent Cronin, "he looked less like an officer than a wading bird. Nor was he a shining courtier, being slow to speak and awkward."

From the beginning, though, Lafayette im-

Mr. Powell is editor of Laissez Faire Books and a senior fellow at the Cato Institute. He has written for the New York Times, *the* Wall Street Journal, Barron's, American Heritage, *and more than three dozen other publications.* *Copyright © 1997 by Jim Powell.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

pressed people. His cousin, the Marquis de Bouille recalled, "I found the young La Fayette remarkably well informed for his age, astonishingly forward in reason and reasoning, and extraordinary for his reflections, his wisdom, his moderation, his cool head and his discernment."

Washington saluted Lafayette's abilities as a strategist and commander: "He possesses uncommon military talents, is of quick and sound judgment, persevering, and enterprizing without rashness, and besides these, he is of a very conciliating temper and perfectly sober, which are qualities that rarely combine in the same person."

Jefferson, representing American interests in Paris, offered this candid assessment to Madison: "The Marquis de La Fayette is a most valuable auxiliary to me. His zeal is unbounded, & his weight with those in power, great. His education having been merely military, commerce was an unknown field to him. But his good sense enabling him to comprehend perfectly whatever is explained to him, his agency has been very efficacious. He has a great deal of sound genius, and is well remarked by the King, & rising in popularity. He has nothing against him, but the suspicion of republican principles. I think he will one day be of the ministry. His foible is, a canine appetite for popularity and fame; but he will get above this." Jefferson told Lafayette: "according to the ideas of our country, we do not permit ourselves to speak even truths, when they may have the air of flattery. I content myself, therefore, with saying once and for all, that I love you, your wife and children."

The respected Lafayette scholar Louis Gottschalk wrote that "For most of the last fifty years of his long life, he was the outstanding champion in Europe of freedom—freedom for all men, everywhere."

Early Life

Marie Joseph Paul Yves Roch Gilbert du Motier was born September 6, 1757, in Château de Chavaniac, Auvergne, in south-central France. His father was Michel Louis Christophe Roch Gilbert du Motier, Marquis de La Fayette, Colonel of the French Grenadiers. He descended from a long line of warrior-aristocrats, one of whom fought with Joan of Arc against the English. Lafayette's mother was Marie-Louise-Julie de la Rivière, whose family had money.

Lafayette's tutors stressed Catholic doctrine and the battlefield exploits of his ancestors, but he did acquire some proficiency in the classics. "I was very good in Latin," he recalled. "I wasn't made to take Greek, which annoyed me. I spent four years at the Collège [de Plessis]. My essays were quite outstanding." One of his early heroes was Vercingétorix, who had defended Gaul against Julius Caesar.

When he was two, his father was killed by a British cannon ball at the battle of Minden (about 40 miles west of Hannover, Germany) during the Seven Years War, and he became the Marquis de La Fayette (as he spelled it before the French Revolution). His mother pulled strings to find a place at Versailles, where the king held court. She died in April 1770, and his grandfather, the Marquis de la Rivière, died soon afterward, leaving Lafayette an inheritance which assured him of a sizeable annual income of around 120,000 *livres*.

At 15, he met 14-year-old Marie Adrienne Françoise de Noailles (known as Adrienne) and fell in love. The wealth and power of the Noailles family were rivaled only by the royal house of Bourbon. They married about a year later, on April 11, 1774. According to biographer André Maurois, she had "large, brooding eyes and an air of alert intelligence." Her aunt the Comtesse de Tesse, remarked that Adrienne rooted her views in "the Catechism and the Rights of Man."

Lafayette became impatient with positions in the Noailles cavalry, and he didn't see a future for himself at the royal court. He heard insurgent Americans were looking for French recruits, so he called on Silas Deane, a Connecticut merchant who was representing the Continental Congress. He wanted to volunteer at his own expense. He told Deane: "it is when danger threatens that I wish to share your fortune."

Lafayette bought a little two-gun merchant

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ship named *La Victoire* and set sail for America on April 20, 1777. It was an anxious voyage, because the ship would have been easy prey for a faster, better-armed British privateer. But Lafayette was lucky, and after 54 days at sea, he arrived at the Bay of Georgetown, South Carolina. He sailed on to Charleston. He spent a month traveling to Philadelphia, mostly on horseback.

The Americans gave him the brush-off because previous French volunteers had proven to be a troublesome lot. But General George Washington was in desperate straits. There were only about 11,000 men in his army, they were poorly equipped, and they were being chased by British General William Howe. Moreover, Benjamin Franklin, whom Lafayette had met in Paris, sent letters asking Washington to serve as a "discreet friend" to Lafayette, "to advise him if necessary with a friendly affection." Franklin was confident that a generous reception for Lafayette would make the French more willing to help America.

Lafayette and Washington

Lafayette first met Washington during a dinner at Philadelphia's City Tavern, July 31, 1777. He welcomed Lafayette as the American forces began moving to evade an attack by British General Charles Cornwallis. They were overrun at Brandywine, Pennsylvania, and Lafayette was wounded in the leg. Then Washington's forces suffered serious losses fighting British General William Howe around Philadelphia.

Lafayette shared the hardships at Valley Forge in 1777–1778. "It is here," he explained to his wife, "that the American army will spend the winter in little huts which are scarcely more cheerful than a cell. . . . Everything tells me to leave, but honor bids me stay, and really, when you understand in detail the circumstances I am in, which the army is in, as is my friend who commands it, and the whole American cause, you will forgive me, my dear heart, you will even pardon me, and I dare almost say that you will congratulate me."

Washington's enemies tried to lure Lafayette into schemes that would undermine Washington's command, but Lafayette asserted his loyalty. He wrote Washington: "I am bound to your destiny, I shall follow it and will serve you with my sword and with all my faculties." Washington replied: "I am well aware that you are quite incapable of entertaining plans whose success depends upon lies and that your spirit is too high to stoop to seek a reputation by ignoble means and by intrigue." He became Washington's information officer.

On May 18, 1778, Washington directed Lafayette to lead a force up between the Delaware and Schuylkill rivers and disrupt British communications with Philadelphia. He displayed tactical genius by cleverly ambushing several British detachments, then maneuvering his men back through British lines. The British pulled their soldiers out of Philadelphia and headed for New York, and Washington asked Lafayette to pursue them and inflict as much damage as possible. Working with General Charles Lee, who turned out to be incompetent, Lafayette was nearly routed by the British at Monmouth, New Jersey.

He decided to see how he could help the cause by returning to France and leading French forces against the British. He bid farewell to Washington, boarded *L'Alliance* in Boston, and sailed on January 11, 1779, bearing a letter from Washington to Benjamin Franklin. At Lafayette's suggestion France would send ships and soldiers to America. Of course, Lafayette would have loved to command the force, but he was only 22, and there were others with considerable seniority.

Lafayette versus the British

Lafayette proved himself extraordinarily resourceful at harassing the British—and escaping from them. One engagement with about 2,500 British soldiers at Petersburg, Virginia, was marked by the death of General William Phillips—the same man who, as an artillery officer 22 years before, had ordered the cannon fire that blew Lafayette's father to bits.

Traitor General Benedict Arnold took over

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Phillips's command, and he was to be joined by General Charles Cornwallis, marching up from South Carolina, and by General Henry Clinton, coming down from New York.

Cornwallis's primary mission was to cut off the South from the North, destroy its arsenals, and, if possible, capture Lafayette, who had built up a force of about 3,500, including a 40-man cavalry and six artillery pieces—about half the total force led by Cornwallis. Lafayette retreated as Cornwallis advanced. He was careful to avoid being outflanked by always staying on higher ground north and west of Cornwallis. His men found myriad ways to cross the rivers of tidewater Virginia and harass Cornwallis from positions that were hard to assault.

Cornwallis approached Fredericksburg, then withdrew toward Williamsburg, and Lafayette followed. Hundreds of "Mad Anthony" Wayne's Pennsylvanians met Lafayette at the banks of the North Anna River. He was joined by General Daniel Morgan's riflemen and by skilled horsemen from Virginia and Maryland. Lafayette's forces grew almost as large as those of Cornwallis. The British commander dispatched troops to destroy Lafayette's military supplies stored at Albemarle Old Court House, but Lafayette led his forces through backwoods trails and thwarted the British.

War's End

On May 31, 1781, Washington wrote Lafayette saying that at last he and Rochambeau agreed to attack Clinton in New York. This, Washington believed, would force the British to withdraw forces from Virginia. Washington told Lafayette he could head north if he still wished, providing he could find a capable leader for his forces. The British intercepted Washington's message, and Clinton concluded that he was more vulnerable than Cornwallis. He ordered Cornwallis to establish a defensive position and send some of his forces to New York. Lafayette followed Cornwallis every step of the way, often through night maneuvers that eluded British detection. Two of his subordinates subsequently marched into a British trap, and a reported 139 Americans were killed, and Lafayette spurred his horse through the gunfire to rally his troops. It was a defeat, but Cornwallis withdrew as he dispatched forces to New York, and he planned on leaving Virginia for Charleston. Lafayette regained Williamsburg.

His forces dwindled to about 1,500 as men went home and tended their fields, but he kept tabs on Cornwallis. Lafayette feared he would miss the most important action. He wrote Washington asking for an assignment in New York. Meanwhile, Clinton ordered Cornwallis to maintain a presence on the Chesapeake Bay—a staging area for attacks on Philadelphia—by occupying Yorktown.

On July 31, Washington ordered Lafayette to rebuild his forces as fast as possible and make the cavalry strong. He knew what that meant: keep Cornwallis bottled up on the peninsula where Yorktown stood. A subsequent dispatch confirmed that Admiral François-Joseph-Paul, Comte de Grasse, was sailing to Yorktown from French possessions in the Caribbean. And Washington and Rochambeau were on the way!

Lafayette amassed provisions. He beefed up his intelligence about British maneuvers. He repositioned his forces. He begged Virginia governor Thomas Nelson for help: "We have not 2000 militia fit to bring into the field. We are destitute of ammunition, and the army living from hand to mouth and unable to follow the enemy. So that on the arrival of the Spanish, French and American forces, I may be reduced to the cruel necessity to announce that I have not, that it was not in my power to stop the enemy."

On August 30, Admiral de Grasse's fleet—six frigates and 28 battleships, with 15,000 sailors and 3,100 marines on board—reached Yorktown. These ships could prevent Cornwallis from escaping by water, and they could help bring American and French soldiers to the scene more quickly. Soon Lafayette commanded over 5,500 regular troops, and there were another 3,000 militiamen. Cornwallis's 8,800 English, Hessian, and provincial troops were outnumbered by the time Washington and Rochambeau arrived on September 9.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"Through his own good luck and the bad judgment of Generals Clinton and Cornwallis had won for him much of his success," wrote historian Louis Gottschalk, "less perseverance or more rashness might easily have led to the annihilation of the force which he had commanded. If Cornwallis now faced the prospect of surrender, it was in large part because Lafayette had persisted where others might have given up or had been cautious where others, yielding to an alluring temptation, might have proved too bold."

The siege of Yorktown began on October 6, 1781. Lafayette was in the thick of the action, leading the capture of British positions. Cornwallis was almost out of food and ammunition, and about a quarter of his men were ill. He surrendered at noon, October 19. British soldiers marched between lines of American and French soldiers as a band played a melody called "The World Turned Upside Down." When the British tried to slight the Americans by looking only at the French, Lafayette ordered his drum-major to start playing "Yankee Doodle" as the British handed over their weapons and returned to Yorktown under militia guard. Historian Gottschalk observed: "No other person (except perhaps De Grasse) had contributed so much or so directly to the capture of one of England's finest armies as had the young general fresh from the 'Society' of Paris."

Continuing Efforts for Liberty

Back in France, after the war, Lafayette suggested that he and Washington launch a joint venture against slavery: "permit me to propose a plan to you which might become greatly beneficial to the Black Part of Mankind. Let us unite in purchasing a small estate where we may try the experiment to free the Negroes, and use them only as tenants—such an example as yours might render it a general practice, and if we succeed in America, I will cheerfully devote a part of my time to render the method fascionable [sic] in the West Indias. If it be a wild scheme, I had rather be mad that way, than to be thought wise on the other track." Washington replied that he would welcome such an opportunity.

Lafayette arrived in New York on August 4, 1784. Two weeks later, he was at Mount Vernon at Washington's invitation. He spent 11 days there, then visited other American friends and by November he was back with Washington. They traveled together to Annapolis. They bid farewell on December 1. Washington wrote Lafayette, "I felt all that love, respect and attachment for you, with which length of years, close connexion and your merits have inspired me. I often asked myself, as our carriages distended, whether that was the last sight I should have of you. And tho' I wished to say no, my fears answered yes." Lafayette and Washington never saw each other again.

Lafayette worked tirelessly for liberty. He promoted freer trade between France and the United States. "There now exist in this kingdom many obstacles to trade which I hope, by little and little, will be eradicated. . . . I think my present duty is, and it ever shall be my rule, to do that in which I hope to serve the United States."

Lafayette became a charter member of the Society of the Friends of the Blacks. He was an honorary member of the New York Manumission Society and the British Committee for the Abolition of the Slave Trade. In 1785, Lafayette and his wife spent 125,000 *livres* to buy two plantations in Cayenne, French Guiana. These came with 48 black slaves who were subsequently emancipated and given some land with which to start providing their own livelihood. The aim was to show how emancipation could be handled successfully.

Revolution in France

The slavery issue was soon overtaken by revolution. The French government had incurred enormous debts during the Seven Years War with Britain, and the situation worsened when the government gave substantial aid to the American struggle against Britain. Half the annual budget went to serve the debt, another quarter was spent on the armed forces, and the royal court at Versailles was a costly drain.

The weak-willed Louis XVI had caved in to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

special interests, dismissing his finance minister, Anne Robert Jacques Turgot, who, during his brief tenure (1774–1776), had cut government spending, abolished monopolies, abolished internal trade restrictions, and abolished forced labor. For a while, Turgot's successor, Jacques Necker, had covered soaring deficits with borrowing, but this had about reached its limit, and government spending cuts couldn't be delayed any further. Thousands of people, long dependent on government checks, were desperate. Moreover, inefficient, high-cost producers shut down as consumers gained the choice of spending their money on less expensive goods from Britain and elsewhere. Unemployment in Paris soared to an estimated 50 percent.

Louis XVI intensified demands that the Parlement of Paris approve new taxes. They countered that approval must come from the Estates-General, an assembly of clergy, nobles, and taxpayers (known as the "Third Estate"), which hadn't met in a century and a half. The nobles who dominated the parliament figured they would dominate a new Estates-General, which is what Louis XVI was afraid of.

In 1787, the king nominated 143 lawyers, judges, and other influential people to the Assembly of Notables, and Lafayette was among them. Although this Assembly could only advise the king, Lafayette hoped that it might persuade the king to limit his absolute power. When that failed, he became a vocal member of the opposition. He constantly spoke out against taxation—and in favor of liberty. After Louis XVI insisted on new taxes, Lafayette declared: "The oriental despotism of the regime enfuriates me." Lafayette called for a national assembly.

On July 5, 1788, Louis XVI agreed that the following May he would summon the Estates-General. Representatives would have to be elected and an agenda drawn up. Clergy, nobles, and taxpayers had met and voted separately, which meant that the tax-exempt clergy and nobles would always outweigh the Third Estate. This included taxpaying lawyers, bankers, merchants, artisans, and peasants who didn't want to be forever dominated. The king acceded to demands that the Third Estate have as many representatives as clergy and nobles combined.

The Estates-General convened at Versailles in May 1789. The 47 representatives of the Third Estate declared themselves to be a National Assembly and boycotted the proceedings, demanding that clergy, nobles, and commoners deliberate together and vote individually. Nobles insisted that the king close the hall where the Third Estate met. He did, they continued their deliberations on an indoor tennis court, and Lafayette was there. They swore what became known as the Oath of the Tennis Court on June 20, 1789, to remain in session until they had drafted a constitution for France.

On July 14, 1789, Lafayette was having lunch with the Duke d'Orléans, a rival of Louis XVI, when he heard the distant sound of cannon. He found out that the Bastille, a medieval prison, had been seized by some 800 angry people. Almost a hundred attackers were killed, and the 49-year-old administrator of the Bastille was beheaded by a cook with a butcher's knife. The Bastille held only seven prisoners at the time, but it had come to symbolize the corrupt regime. Its fall to commoners launched the French Revolution.

A disgruntled lawyer named Maximilien Robespierre described it with what would become his bywords, "punish," "terror," and "victim." He was a leader of the Jacobins, who got their name because they began meeting in a hall which once belonged to Jacobin monks. Generally well-to-do, the Jacobins promoted egalitarian doctrines with force and violence.

The Declaration of Rights

Lafayette believed if anything good was to be accomplished, the aims of the revolution must be spelled out in a way that would win the hearts of people. Accordingly, for months he had been drafting what became the Declaration of the Rights of Man and of the Citizen. Lafayette was inspired by the Virginia Declaration of Rights, and his draft reflected his view that the primary threat to liberty was royal absolutism. He affirmed the right of the individual to "assure his property, liberty, honor, and his life." He advocated separation

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of powers, limited taxation, and freedom of speech. He carefully specified how the constitution could be revised. In January 1789 he gave this draft to Jefferson, who praised it and sent along a copy to James Madison, then contemplating a Bill of Rights for America.

As the National Assembly debated the Declaration between July 11 and August 26, more members became convinced the primary threat to liberty was mob violence rather than royal absolutism, and they insisted on somewhat more conservative language. The final draft stressed obedience to law. It was more specific on freedom of thought. It specified freedom of religion. It emphasized the importance of secure private property. It didn't say anything about amending the constitution. Despite these differences, the final version was based more on Lafayette's draft than any other—almost all of his first five paragraphs were incorporated into the final version. While less eloquent than the immortal opening lines of the American Declaration of Independence, the Declaration of the Rights of Man and of the Citizen, adopted on August 27, offered a more fully developed vision of liberty.

The Declaration of the Rights of Man and of the Citizen appeared in thousands of broadsheets, pamphlets, and books. It was read in public places.

As for specific constitutional arrangements, Lafayette believed that a separation of powers was essential. He favored a bicameral legislature with a Chamber of Representatives, a lower house (short terms) that could initiate legislation, and the Senate, an upper house (six-year terms) that could exercise a "suspensive" veto on legislation, preventing enactment for perhaps a year. Similarly, he thought that legislative power should be subject to check by a king with a suspensive veto, preventing enactment through two elections—unless overridden by a two-thirds vote in the Chamber of Representatives.

But there was a bitter split in the National Assembly over checks and balances. Lafayette asked his friend Jefferson to host a dinner for eight National Assembly leaders, but despite the Virginian's benevolent influence, the split remained as deep as ever. On September 10, the Assembly voted 490 to 89 for a legislature with a single chamber. It supported a suspensive veto for the king, giving Lafayette a partial victory.

Citizen militias formed throughout France, and they came together as the National Guard, which served the National Assembly. Lafayette was appointed commander of the Paris National Guard. "The National Assembly," he declared, "recognizes with pleasure that all France owes the Constitution which is going to ensure her happiness to the great efforts for public liberty just made by the Parisians." Soldiers throughout Paris swore allegiance to Lafayette, which seemed to give him more power than the king. Lafayette used his power mainly to save people from being murdered by mobs.

In the National Assembly, Lafayette was pushing for reforms. He introduced a measure for abolishing aristocratic privileges, and it passed on August 4. He proposed major reforms of criminal justice—accused persons must be provided with legal counsel, they must have access to all documents in their case, they must be able to confront witnesses, and trials must be public.

During the night of June 20, 1791, Louis XVI secretly made his "flight to Varennes," near the Belgian frontier, an attempt at rallying royalists and, if necessary, joining the Austrian army mobilized against the Revolution. Lafayette awakened his house guest, *Rights of Man* author Thomas Paine, and exclaimed: "The birds have flown away!" Outraged, since he had assured people that the king agreed to stay put, he signed the first order in French history for the arrest of a king, and he brought the humiliated royal family back to Paris.

On September 14, 1791, Louis XVI abandoned royal absolutism as he signed the Constitution.

This wasn't good enough for fanatics who were gaining more influence every day. Mob violence became endemic. Lafayette was branded an enemy of the nation who must be guillotined. On August 17, 1792, he was dismissed from the National Guard, an almost certain prelude to execution. Lafayette headed for the Belgian border, on his way to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Holland. By fleeing the country, according to a 1792 decree, he forfeited all his properties.

Imprisonment

Lafayette was detained in Rochefort, Belgium, which was controlled by the Austrian Emperor François II. Although Austria welcomed French royalist émigrés, Lafayette was considered a dangerous revolutionary. He was sent off to Wesel in western Germany, where he was placed in solitary confinement in a dark, damp, moldy, rat-infested dungeon. After about a year, the Prussian government agreed to serve as jailer for enemies of Austria, and Lafayette was transferred east to a fortress at Magdeburg, about 75 miles from Berlin—another dungeon. By January 1794, he had been transferred further east, a 12-day journey through bitter-cold weather to yet another dungeon at Neisse, near the Polish frontier.

The Prussians decided that Austria should jail its own enemies, and in the spring, Lafayette was transferred to Olmütz, Moravia (now part of the Czech Republic). Lafayette was stripped of virtually all possessions except a few books, including, ironically, a copy of Thomas Paine's radical *Common Sense*.

He wrote a friend that "Liberty is the constant subject of my solitary meditations. . . . It is what one of my friends once called my 'holy madness.' And whether some miracle releases me from here, or whether I testify upon the scaffold, 'liberty, equality' will be my final words. Here, I can fight against the tyrants only for my soul and my body." He expressed concern "that the Blacks who cultivate it [his estate in Cayenne] still keep their liberty."

Meanwhile, during the Reign of Terror in 1793 and 1794, when Robespierre ordered some 60 executions a day, 40,000 altogether, Adrienne Lafayette's mother, grandmother, and sister had been guillotined, and Adrienne had been imprisoned in Brioude and Paris. She was released thanks, in part, to efforts by American diplomat James Monroe, who had also helped free Thomas Paine from a French prison. Adrienne arranged for 14-year-old George Washington Lafayette to find a safe haven in America. He bore her letter to George Washington that said "I send you my son."

Adrienne worked singlemindedly to see Lafayette. As Lafayette descendant and scholar Réné de Chambrun explained, "Lafayette had not spoken to a human being and had been completely isolated from the outside world for nearly one year, when suddenly, on October 15, 1795, the door of his narrow cell was thrown open." In came Lafayette's wife and two daughters. It was the most "dramatic instant of his life."

Prison conditions took their toll on Adrienne. She developed fevers, her arms became swollen, and there were open sores on her legs. When she asked to visit a physician in Vienna, she was told that if she left she could never return. She stayed, and her health worsened.

George Washington wrote a confidential letter to François II, pleading for their freedom and offering the United States as a sanctuary. In the British parliament, Charles James Fox and Richard Brinsley Sheridan championed Lafayette.

Freedom

The October 17, 1797, Treaty of Campo-Formio stipulated, among other things, that Lafayette and his wife would be released. They went to Holstein, a province of Denmark that wasn't likely to become embroiled in war between France and England. On Christmas Day 1798, George Washington wrote his last letter to Lafayette, expressing relief that his friend was free.

Finally in November 1799, Napoleon agreed they could return. Most of their properties had been confiscated and sold during the French Revolution. They were left with La Grange, an abandoned fifteenth-century castle about 35 miles east of Paris. Jefferson pleaded with Lafayette to make America his home. But Lafayette was convinced that if he left France, Napoleon would never let him return.

Réné le Chambrun emphasized that "Madame Lafayette's greatest concern was to find the hidden ditch where the beheaded bodies

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of her grandmother, mother, and sister Louise lay with the other victims of the Terror. With her sister . . . they one day found the dreaded hole. They were too poor to buy the surrounding land, so they raised a subscription among the victims' kin. They built a chapel on the site of the one the Revolution had destroyed at Picpus."

Despite all he had suffered, Lafayette remained defiant. In 1802, Napoleon wanted to be named a consul for life, but Lafayette expressed his opposition. "The French people have too well known their rights to have forgotten them," he declared.

In 1807, Adrienne suffered the same painful symptoms she had in prison. By October, she developed a fever and went into a delerium. Her family gathered around. On Christmas Eve, she put her arm around Lafayette's neck and whispered, "Je suis toute à vous" ("I am all yours"). She groped for his fingers, squeezed them, and was gone.

Lafayette, Réné le Chambrun explained, "seldom left La Grange, where he led a farmer's life." He improved fertilization techniques. He introduced American corn to France. He planted apple and pear orchards, and he did a good business selling cider. He introduced new breeds of cattle, hogs, and sheep. He did well enough that he paid off debts and achieved some financial security.

Every day he arose at five in the morning, Chambrun reported, and "remained in bed for two hours writing friends of liberty all over the world: Poles, Hungarians, Greeks, Spaniards and Portuguese, North and South Americans . . . and, alone on his knees, holding in his hand a small portrait of Adrienne and a lock of her hair, he would spend a quarter of an hour in meditative devotion."

Lafayette's Return to Public Life

After Napoleon's downfall in 1814, Lafayette returned to public life. He visited Germaine de Staël, who, after a decade of exile, had revived her influential liberal salon. He protested as Napoleon's successor, Louis XVIII, affirmed the divine right of kings and issued one decree after another. He lashed out at aristocrats scrambling back into power.

When Napoleon attempted his comeback, claiming a conversion to liberalism, the supposedly naïve Lafayette declared, "I see no sign of his doing so." The intellectual Benjamin Constant, who had bet on Napoleon's conversion to liberal principles, told Lafayette: "You are my conscience!" Constant persuaded Lafayette to seek election for the Chamber of Deputies. He became a deputy from the department of Seine-et-Marne.

Defeated at Waterloo, Napoleon demanded dictatorial power. Lafayette rose in the Chamber of Deputies. "When for the first time in long years," he declared, "I raise a voice that the old friends of liberty will still recognize, I feel called upon, Messieurs, to speak to you of the dangers confronting the nation, which you alone, just now, have the power to save. . . . This is the moment for us to rally round the old tricolour standard, the standard of '89, the standard of liberty, of equality and public order; it is that alone which we have to defend against pretensions abroad and assaults at home." He proposed five resolutions that, among other things, asserted the supremacy of parliamentary government.

Napoleon, still the most feared military commander in Europe, was furious. Lafayette urged his fellow deputies to join him in telling the Emperor that "after all that has happened, his abdication has become necessary to save the nation." Napoleon abdicated.

Lafayette withdrew from politics, but he remained an inspiration to friends of liberty everywhere. When fanatical royalists began to terrorize much of France, friends encouraged Lafayette to seek office again. In 1818, he was elected to the Chamber of Deputies from Sarthe. He started a group called Friends of the Liberty of the Press, and he pleaded for toleration. He urged that people "return to the national, constitutional and peaceable path—the path of good will. We have so many public and personal interests to conserve, so many common sorrows to deplore, so many private qualities to recognize in one another, when they are not denatured by the partisan spirit."

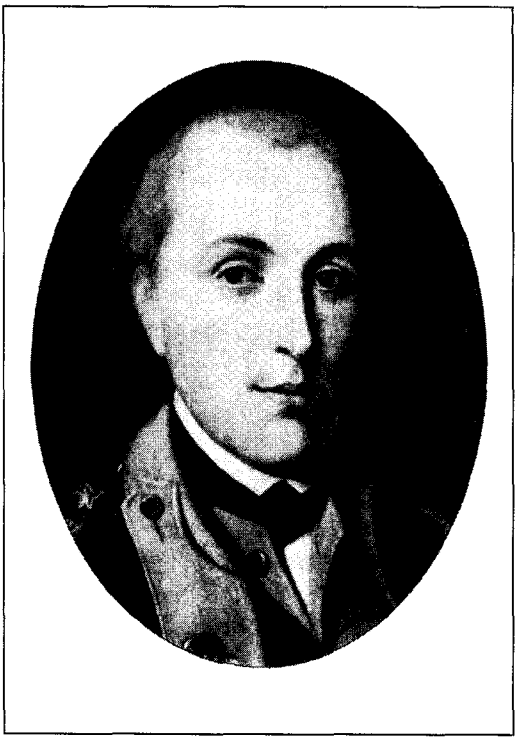
LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

In 1823, Lafayette accepted President James Monroe's invitation for a farewell tour of America. He declined Monroe's offer to send a warship for him and instead traveled aboard the ordinary packet ship *Cadmus*. He arrived on August 15, 1824, and was greeted by some 30,000 people. An estimated 50,000 cheered Lafayette as he rode a wagon drawn by four white horses to New York's City Hall. People threw flowers at him. Mothers brought their children for his blessing. Some 6,000 people attended a ball in his honor. He began a 13-month tour through all 24 states.

"I see you are to visit York-Town," Jefferson wrote Lafayette in Boston, "my spirit will be there with you; but I am too enfeebled by old age to make the journey. . . . Our village of Charlottesville insists upon receiving you, and would have claimed you as its guest, if in the neighborhood of Monticello you could be anybody's guest but mine . . . God bless and keep you; may He permit me to see you again and to embrace you."

Lafayette commended Americans for what they had accomplished: "In the United States the sovereignty of the people, reacquired by a glorious and spotless Revolution, universally acknowledged, guaranteed not only by a constitution . . . but by legal procedures which are always within the scope of the public will. It is also exercised by free, general, and frequent elections. . . . Ten million people, without a monarchy, without a court, without an aristocracy, without trade-guilds, without unnecessary or unpopular taxes, without a state police, a constabulary, or any disorder, have acquired the highest degree of freedom, security, prosperity, and happiness, which human civilization could have imagined."

At Bunker Hill, Massachusetts, the orator Daniel Webster declared: "Heaven saw fit to ordain, that the electric spark of liberty should be conducted through you, from the New World to the Old." Lafayette entered Philadelphia, escorted by four wagons carrying about 160 Revolutionary War veterans. He stopped at the Brandywine battlefield where he had been wounded. He returned to Yorktown, which was still in ruins. Big crowds welcomed him everywhere—for instance, 10,000 in Newburgh (New York), 50,000 in Baltimore, and 70,000 in Boston. He was cheered in Richmond, Columbia, Charleston, Savannah, Augusta, Montgomery, Mobile, New Orleans, Natchez, St. Louis, Nashville, Lexington, Cincinnati, Pittsburgh, Buffalo, and Albany. He appeared at Catholic churches, Protestant churches, and Masonic lodge gatherings. He attended receptions open to everybody, and he publicly welcomed blacks and Indians who came. Lafayette descended to the vault of George Washington's tomb at Mount Vernon. There was a reception at the University of Virginia. He saw John Adams in Quincy, Massachusetts, and James Madison in Montpelier, Virginia.



Lafayette

And Lafayette reached Monticello. "The Marquis got out of his barouche and limped as fast as he could toward the house," explained biographer Brand Whitlock. "Between the white columns of the portico appeared a tall, spare figure of a man stooped with age, wearing the swallow-tailcoat, the long waistcoat and the high stock of another epoch; he had cut off his queue, and his thin white locks hung about his hollow temples

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and lean cheeks; he tottered down the steps, and came towards him.

"'Ah, Jefferson!' cried Lafayette.

"The two old men broke into a shuffling run.

"'Ah, Lafayette!' cried Jefferson.

"No need for eloquence now! They burst into tears and fell into each other's arms."

Sometime later, Lafayette's secretary Auguste Levasseur described an awesome sight in Charlottesville: "the Nation's Guest, seated at the patriotic banquet between Jefferson and Madison." On September 7, Lafayette went down the Potomac River on the steamboat *Mount Vernon*, boarded the frigate *Brandywine*, and sailed back to France.

Lafayette began spending winter months at 6 rue d'Anjou, Paris, and there held Tuesday evening receptions that attracted liberals from America and Europe. The American author James Fenimore Cooper reported that the gatherings "are exceedingly well attended." Benjamin Constant and Alexander von Humboldt attended, as did members of the Chamber of Deputies. Historian Lloyd Kramer noted that "Lafayette's soirees in Paris, like his long conversations with guests at La Grange, thus facilitated contact between different generations in much the same way as they contributed to new connections between politicians and writers or between his French friends and foreigners."

Meanwhile, in 1824, Charles X had become king of France and reasserted the power of church and throne. The Roman Catholic Church regained control over French schools, and anyone convicted of committing a sacrilege in a church building could be put to death. In 1830, the Chamber of Deputies voted "no confidence" in the ministry, the king called for new elections, and voters supported the king's outspoken opponents. On July 26, 1830, the king issued four decrees that dissolved the new Chamber of Deputies, suppressed freedom of the press, restricted the voting franchise of merchants and bankers and announced new elections based on the restricted franchise.

The day after the decrees were announced, Paris erupted in revolt. People barricaded the streets July 27, 28, and 29. The army refused to shoot at the rebels. Some wanted a democratic republic, while others wanted stronger constitutional limitations on the monarchy, and still others were mainly concerned about job security.

The 73-year-old Lafayette declared that the regime of Charles X was politically finished and that it was time for a new government. "Make a revolution," he urged. "Without it, we shall have made nothing but a riot." As in 1789, he was asked to head the National Guard, and he accepted, but he declined suggestions that he become president of a French republic. While Paris seemed to favor a republic, most people in the provinces feared violent upheaval and wanted a constitutional monarchy. Lafayette concluded that "what the French people need today is a popular throne surrounded by republican institutions, but altogether republican." He believed the top priority for liberty was to preserve the authority of the Chamber of Deputies.

He proposed that the Duke d'Orléans become king. The duke was related to the Bourbon dynasty, had been in the republican army during the French Revolution, and he agreed to observe constitutional limitations on royal power. Accordingly, the Chamber of Deputies offered him the throne on August 7, and he became Louis-Philippe, "the bourgeois king." He proved to be an adroit public relations man—displaying the revolutionary tricolor flag, calling himself "king of the French" (rather than king of France), dressing in austere dark suits instead of opulent robes. Louis-Philippe made the Chamber of Peers an elected rather than hereditary body, and the voting franchise was doubled to include about 200,000 business people who possessed some property.

Lafayette defended individuals jailed for political offenses. He opposed capital punishment. He denounced slavery. He supported insurgents in Belgium. He was a champion of Polish freedom, and—defying government restrictions on refugees—he hid Polish patriots like Antoine Ostrowski and Joachim Lelewell at his La Grange estate.

In early February 1834, Lafayette reported pain and fatigue, perhaps triggered by pro-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

longed exposure to bitter cold air. He had pneumonia. His children stayed with him. At about 4 o'clock in the morning, May 20, 1834, Lafayette pressed to his lips a medallion with a picture of Adrienne and took his last breath. He was 77. The funeral service was at the Church of the Assumption, Paris. Tens of thousands of people turned out to see 3,000 National Guards accompany Lafayette's coffin to the humble Picpus cemetery, where he would join Adrienne and so many guillotined victims of the French Revolution. Lafayette was laid to rest in American soil he had brought back on the *Brandywine*.

Lafayette was idolized during the nineteenth century, especially in the United States. His portrait seemed to be everywhere—American Friends of Lafayette has over a thousand historic portraits of him. Dozens of American towns, counties, and schools were named after him. "Pronounce him one of the first men of his age," John Quincy Adams proclaimed in his tribute, "and you have not done him justice."

But most twentieth-century historians—especially French—debunked Lafayette as a vain, immature, mediocre, doctrinaire simpleton. Many conservatives, including his descendants, viewed him as a traitor to his class. Lafayette's grandson inherited La Grange, and he married a British woman—a Tory. She consigned Lafayette's books, papers, and other personal possessions to the third-floor attic of the northwest tower, a space which Lafayette had called the "Couloir des Polonais" ("hiding place of free Poles"). The next two generations maintained the Tory ambiance of the place.

Happily, there has come a renewed appreciation for Lafayette. Réné le Chambrun, descended from Lafayette's daughter Virginie, acquired La Grange in 1955 and explored the northwest tower attic. He and his wife discovered a treasure of letters and mementoes.

Historian Lloyd Kramer recalled the revelation he experienced when he helped edit Cornell University's vast collection of Lafayette letters, gathered from Lafayette's birthplace at the Château de Chavaniac: "I soon came to realize the historical value of reading 'primary sources' and to believe that Lafayette's life had been far more varied and complex than the ironic, historical narratives suggested."

Even a tart-tongued biographer like Olivier Bernier acknowledged that "whatever his limitations, it is to Lafayette's glory that the one idea he seized on was that of liberty. Nothing can replace the right to speak, think, organize, and govern freely: from this all benefits derive. With his vanity, his obstinacy, his self-satisfaction, his thirst for popularity, Lafayette never lost sight of that all-desirable principle. For that, he deserved the gratitude of his contemporaries and the esteem of later generations. In a world where liberty is in very short supply, there are worse heroes than a man who never stopped worshipping freedom." So the one thing Lafayette's critics concede is the most important of all. He still stands tall as the great hero of two worlds. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Getting Published—An "Austrian" Triumph

"[Austrian economists] feel they've been frozen out of mainstream economics and seldom get even a footnote in standard textbooks."

—*Todd G. Buchholz*[1]

Austrian economist makes good! I just got published in the *Journal of Economic Perspectives*, the most widely read economics journal in the country.

The article, "The Perseverance of Paul Samuelson's *Economics*," is a damning review of the 15 editions of Samuelson's famous textbook.[2] I am still in shock a year after getting an E-mail from the *JEP* saying they had accepted my paper. Undoubtedly it is a watershed event when the No. 1-read economics journal in the country is willing to publish an article critical of the top Keynesian economist in the world and first American to win the Nobel Prize in economics. One of the co-editors, Brad de Long, said that my study is "one of the best and most exciting papers we published in the second half of the 1990s." Tim Taylor, the managing editor, said that ten years ago they would not have published it.

Dr. Skousen is an economist at Rollins College, Department of Economics, Winter Park, Florida 32789, and editor of Forecasts & Strategies, *one of the largest investment newsletters.*

A reprint of "The Perseverance of Paul Samuelson's Economics" *(including Professor Samuelson's response) is available from FEE for $3.00, postpaid.*

Dethroning the King of Keynes

There are two major stories that come out of my study.

First, Samuelson's *Economics*—the most popular textbook ever published, with over 4 million sold and translated into 41 languages—taught students a lot of bad economics. Until recently, the MIT professor taught students that high saving rates were bad for the country, federal deficits and progressive tax rates were beneficial, and Soviet central planning could work. In my review of his 15 editions, which covers the entire postwar period, I point out that Professor Samuelson spent whole chapters discussing the failed economics of the Soviet Union and China, while writing little or nothing on the success stories of West Germany, Japan, the East Asian Tigers, or Chile. He had numerous sections in his textbook on "market failure" while offering very little on "government failure." He constantly highlighted the economics of Keynes, but downplayed the economics of Friedman, Hayek, and other free-market economists.

Samuelson's Economics: From Keynes to Adam Smith

Not everything was negative in my review of Samuelson's textbook. On the positive side: Samuelson frequently declared his optimism about the future of capitalism and rejected doomsayers' predictions of another Great Depression or national bankruptcy. He reg-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ularly defended free trade and free markets in agriculture. And he was highly critical of Karl Marx and Marxian economics.

The most amazing discovery I made in my study is that Samuelson, under the influence of co-author William D. Nordhaus (Yale) and recent events, has had a change of heart and is gradually shifting back to classical economics. In more recent editions, he has reversed his position on a number of important issues. In the most recent edition, for example, Samuelson states that Soviet central planning was a "failed" model, that national savings is too low and needs to increase, and that the national debt is excessive. (For more on Samuelson's transformation, see my article, "Another Shocking Reversal in Macroeconomics," *The Freeman*, February 1996.)

The *JEP* also published a rejoinder by Samuelson, which was surprisingly reserved and anemic in response to my blistering critique. "I am pleading no alibi nor extenuations," he wrote. "My present-day eyes do discern regrettable lags in sloughing off earlier skins."[3] He only denied that he was antisaving, one thing he is famous for.

My study of Samuelson's *Economics* points to the real need for a college-level textbook on sound economics. That is my primary goal right now. My forthcoming textbook is called *Economic Logic* and I hope to finish it next year. I'll keep you posted.

Past Prejudices Against Austrians

Austrian economists have had a long struggle in getting recognized by the profession. The mainstream has shown little interest if not disdain for a school that is laissez faire in government policy and critical of mathematical modeling and empirical econometrics. Following the postwar Keynesian revolution, the economics establishment was unreceptive to the works of Ludwig von Mises and Friedrich Hayek. In the 1960s, Austrian economists depended on the conservative publisher Regnery and the engineering publisher D. Van Nostrand & Co. to get published.

Future Is Brighter

Gratefully that's all changing. Today Austrians hold a small but growing number of positions at major universities (George Mason, Auburn, NYU, University of Georgia, California State at Hayward, etc.), get published by major university and academic presses (Cambridge, Chicago, Oxford, NYU, Kluwer, Routledge, and Edward Elgar, among others), and are getting accepted in major journals (*Journal of Economic Literature*, *History of Political Economy*, *Journal of Macroeconomics*, and *Economic Inquiry*).

Still, other "free-market" schools (the monetarists and the new classicists) have advanced much further because of their mathematical and empirical approach. The Austrian school still largely remains a "book culture," as Peter Boettke puts it, and needs to devote more efforts to "strategic" publishing in the journals rather than preaching to the choir if it wants to have an impact.[4] Happily, things are looking up. □

1. Todd G. Buchholz, *From Here to Economy: A Shortcut to Economic Literacy* (Dutton, 1995), p. 238. Buchholz's popular history, *New Ideas from Dead Economists* (Plume, 1990), completely ignores the Austrians because Hayek and Mises weren't discussed at Harvard.

2. Mark Skousen, "The Perseverance of Paul Samuelson's *Economics*," *Journal of Economic Perspectives*, vol. 11, no. 2 (Spring 1997), pp. 137–152.

3. Paul A. Samuelson, "Credo of a Lucky Textbook Author," *Journal of Economic Perspectives*, vol. 11, no. 2 (Spring 1997), p. 155.

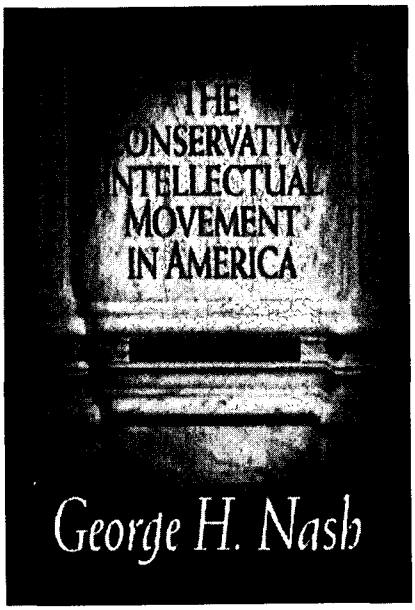
4. Peter J. Boettke, "Alternative Paths Forward for Austrian Economics," *The Elgar Companion to Austrian Economics* (Edward Elgar, 1994), pp. 601–15.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

New Edition of a Classic History

THE CONSERVATIVE INTELLECTUAL MOVEMENT IN AMERICA: SINCE 1945

George H. Nash



$24.95 hardback, 455 pages

New Sections Include:

- Preface
- Epilogue chapter, entitled *Conservatism Ascendant: The Age of Reagan and Beyond*
- Bibliographical Postscript

To Order: Send check payable to ISI to the below address, or for VISA or MasterCard orders, call toll-free **1-800-526-7022**. Please add 50 cents per copy for postage. Book information can be requested via fax: (302) 652-1760.

In this revised and updated edition of what *Insight* magazine recently called "the standard work" on the history of post-World War II American conservatism, George Nash shows how an exceedingly diverse group of thinkers—among them William F. Buckley, Jr., Richard M. Weaver, Ludwig von Mises, Milton Friedman, Frederick Hayek, and Russell Kirk—formed a number of distinct, yet highly influential, positions toward politics and life in America. The Conservative Book Club, in choosing the title as a featured main selection, hails this work as "the book that picks up where Russell Kirk's *The Conservative Mind* leaves off."

"In an epilogue to the 1996 edition...biographer-historian Nash describes the conservative forces emerging over the last 20 years, or what he calls 'the age of Reagan.' He describes the growing conservative commitment to restoring civil society from the bottom up."

—Lee Edwards, *Policy Review*

"This book is a masterful study that can be read for pleasure as well as edification by people on the entire range of the political spectrum."

—Forrest McDonald
author of *The American Presidency*

Intercollegiate Studies Institute
P. O. Box 4431 • Wilmington, DE 19807-0431
*(Visit the ISI web page at **www.isi.org** for a complete book list.)*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

BOOKS

Poor Policy—How Government Harms the Poor

by D. Eric Schansberg

Westview Press • 1996 • 244 pages • $25.00

Reviewed by George C. Leef

As Thomas Sowell correctly observes, before one can be a partisan of the poor, he must first be a partisan of the truth. Unless we understand the truth about the causes of poverty and the truth about the effects of what are called "anti-poverty programs," we are not going to be able to do anything to help the poor. Indeed, trying to aid the poor without an accurate analysis of the causes and the effects of the proposed cures, we are apt to make their condition worse. In medieval times, doctors used to bleed people suffering from diseases on the assumption that bad blood was causing their distress; this was almost never beneficial and fatal in many cases. Could it be that government policy today toward poverty is on a par with bleeding?

In *Poor Policy*, D. Eric Schansberg argues that, like bleeding, government policy to help the poor actually is harmful. Welfare programs aren't just *ineffective*. They are *harmful*. Furthermore, the author, who is assistant professor of economics at Indiana University-Southeast, makes a strong case that many of the poor are poor (or at least poorer than they would otherwise be) due to the effects of laws and policies designed to benefit various groups of non-poor people. In short, Schansberg is arguing the classic laissez-faire position against interventionism by demonstrating that it creates and exacerbates poverty.

Virtually everything government does outside of its Jeffersonian core of protecting individual rights to life, liberty, and property creates wealth transfers that make the society poorer on the whole, and have their worst impact on those who can least afford it. Schansberg devotes several chapters to the familiar list of laws that especially hurt the poor—the minimum wage, occupational licensing, rent control, and so on. In doing so, he introduces the reader to public-choice economic theory. Once people understand the logic of public choice, they are less apt to be taken in by the claims that laws like those are "well-intentioned."

I particularly commend the author for attacking sacred cows. Social Security? Sorry. It harms the poor. Drug prohibition? It harms the poor also. Public education? A cataclysm for the poor. Given that so many Americans have been conditioned to ask of any proposed public-policy change, "How will it impact the poor?" we should use Schansberg's book (as well as the works of Charles Murray, Marvin Olasky, and others) to bludgeon Social Security and so on with the argument, "They *hurt* the poor!"

The book also takes some well-aimed shots at the pernicious idea that Christianity demands that we have a governmental welfare system. Big-government advocates shamelessly resort to this form of moral blackmail, but the author replies, "The bottom line is that there is no relation between the biblical call to Christians and the use of government to help the poor. In fact, they are diametrically opposed. The use of government to reach certain ends is based on coercion. The change in behavior designed to accompany the Christian's Spirit-filled life is completely voluntary." The use of coercion to accomplish anything, whether it is feeding the hungry or exploring Mars, is simply *wrong*. Schansberg has here hit upon what I believe must be the foremost goal of defenders of liberty, namely, to get people to pay attention to the morality of the *means* and not just the desirability of the ends.

Poor Policy is a useful, nontechnical book that neatly organizes a lot of data and arguments against the ideas that government can, does, and should assist the poor. Bravo. □

George C. Leef is book review editor of The Freeman.

The Concise Conservative Encyclopedia

by Brad Miner

Free Press • 1996 • 318 pages • $15.00

Reviewed by Aaron Steelman

The free-market movement in the United States has prospered tremendously over the past 20 years. Dozens of market-oriented think tanks and journals have been created, and an increasing number of students are becoming interested in the ideas of liberty. *The Concise Conservative Encyclopedia* provides a valuable and easy-to-read introduction to the ideas, individuals, and organizations that have shaped this burgeoning intellectual movement.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Miner's book contains 200 brief entries, an afterword by the author, and five succinct essays on the origins of conservative thought, ranging from antiquity to the modern era. Those essays are written by Carnes Lord, Jacob Neusner, James Schall, S.J., Peter Stanlis, and Charles Kesler.

In the preface, Miner argues that the "purpose of a 'reader's encyclopedia' such as this one is not to provide the last word on the topics and people it covers, but to offer the inquiring reader just enough information about the subject in question to enable him *to go on reading* in some other book with a modicum of improved perspective." Toward that end he has succeeded marvelously.

The entries have been chosen wisely and the author has given more than adequate attention to all the major strains of modern free-market thought, including classical liberalism. Every major classical liberal and libertarian figure—including Mises, Hazlitt, Bastiat, Friedman, and Hayek, to mention but a few—is incisively and intelligently profiled. In addition, Miner has included entries for a number of other individuals and institutions that readers of *The Freeman* will undoubtedly be familiar with, but that many nonlibertarians will not. Among those are Frank Chodorov, Bertrand de Jouvenel, and Felix Morley. The book also contains brief, yet insightful, descriptions of the Austrian, Chicago, and Virginia schools of economics. And Miner doesn't shy away from discussing differences of opinion on the Right. He discusses the debates over an interventionist foreign policy and free trade, and he deals with the seeming divide between traditionalism and libertarianism, which he argues has been overblown.

For newcomers to free-market thought, his suggested readings at the end of each entry will be valuable—although there are a few exceptions to that rule. For example, the lone book by Mises that he has recommended is *Human Action.* While there can be little question that *Human Action* is the most comprehensive statement of Mises's worldview, how many beginners are going to be able to actually get through it? Listing, for example, *Liberalism* or *Planning for Freedom* as well would have been more helpful.

Moreover, there are some exclusions that seem a bit puzzling. The Institute for Humane Studies, the Cato Institute, and the Volker Fund do not receive individual listings, nor do Israel Kirzner and Richard Epstein, two giants of free-market scholarship.

Despite those problems, *The Concise Conservative Encyclopedia* is a tremendous improvement over its two principal competitors: *Right Minds: A Sourcebook of American Conservative Thought* by Gregory Wolfe and *A Dictionary of American Conservatism* by Louis Filler. It belongs in the library of every student of liberty, beginner or veteran. □

Mr. Steelman is a staff writer at the Cato Institute.

The Diversity Machine: The Drive to Change the "White Male Workplace"

by Frederick R. Lynch

The Free Press • xv + 416 pages • $27.50

Reviewed by Brad Stetson

Even though race-and-gender-based double standards are encountering increasing public opposition, the affirmative action steamroller and the diversity machine have continued their work. Affirmative action has sustained some severe critical and legal blows lately, but its commercial cousin, the diversity movement, has escaped close scrutiny—until now. With this wide-ranging book, sociologist Frederick R. Lynch of Claremont McKenna College, crushes the Potemkin Village of slogans, moralisms, and stereotypes that have shielded diversity management from careful analysis.

Lynch diligently traces the diversity movement from its roots in the affirmative action campaigns of the 1960s to its entrenchments in the boardrooms of today's largest corporations. He carefully documents the language and rationales of "diversity trainers," the salespeople for the movement who practice a subtle form of extortion by urging CEOs and personnel managers to have a workforce that "looks like America" or "reaches out" to the "underrepresented." In other words, the best way to avoid being called names at an interest group's press conference or to preempt discrimination is to artificially pump up the number of women and minorities employed and promoted. Of course subsequent training in "cultural sensitivity" and multiculturalism also looks good—and is very profitable for the firms devoted to providing such "services" to corporations.

While Lynch is respectful of the good intentions of many in the diversity movement, he does not accept their rhetoric at face value. At conference after conference, he encounters "diversity experts" who, for all their multicultural awareness and self-proclaimed sensitivity, are unwilling to acknowledge either intragroup differences or the legitimate grievances of white males.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The diversity machine's general blindness to internal group differences stemming from age, religion, education, and even gender undercuts the validity of its generalizations about group traits. As Lynch illustrates, "The Hispanic manager could be a fourth generation Mexican-American with an Anglo mother and a Stanford M.B.A.; subordinates might be first-generation Guatemalans with a sixth grade education." Similarly, dismissive talk of white male "backlash" and "resistance" is the ready response of many diversity "facilitators" to the white male employee who voices disagreement with the diversity mandate. Lynch shows that the diversity machine's dispute with "white male" culture is in fact a veiled argument with the values and methods of capitalism and meritocracy.

The basic reality that supports the diversity juggernaut is the same phenomenon that sustains affirmative action programs and so much politically correct cant about race and gender in American life: "preference falsification." This phrase, coined by economist Timur Kuran, refers to the mobilization of social pressure to make people publicly praise ideas as true which they privately believe to be false. So in public, out of fear of being labeled "racist" or "insensitive," people may accept the reasonableness of affirmative action, but in private they deem it a cloak for racial discrimination. The same holds true for corporate diversity programs, except that the pressure to be approving is magnified, as people's promotions and jobs may well be jeopardized if they are too forthright in their disagreement. Indeed, as Lynch clearly shows with interviews and vignettes from the diversity seminars, dissenters from diversity orthodoxy experience an enormous amount of fear and intimidation.

The exhaustiveness and relentless detail of Lynch's investigation have a cumulative effect that will be persuasive to any open mind. Emerging from this meticulous dissection of the diversity movement is the unsettling truth that both the means and goals of this now largely mainstream, institutionalized philosophy are antithetical to the basic liberal values of the American founding: free speech, individualism, equality of opportunity, and nondiscrimination on grounds of race, gender, or religious faith. The diversity machine, with its underlying ideology of ethnic-gender proportionalism, cultural relativism, and identity politics can only foment social acrimony and, ironically, given its banner and rhetoric, a homogeneity of thought. Were this a nascent or fringe movement, it would be troubling enough. But given that the mantras of diversity have already mesmerized American politics and business culture, it is even more distressing. The diversity machine's momentum will not soon slow, and we should be deeply concerned about where the irrational ethnic and gender group consciousness it stimulates will lead us. □

Brad Stetson is director of The David Institute, a social research group in Tustin, California. He is co-author of Challenging the Civil Rights Establishment *(Praeger Publishers, 1993), and author of* Human Dignity and Contemporary Liberalism *(forthcoming, Praeger). His E-mail address is blsdi@aol.com. A shorter version of this review appeared in* First Things.

The Conservative Intellectual Movement in America: Since 1945, 2nd edition

by George H. Nash

Intercollegiate Studies Institute • 1996 • 467 pages • $24.95

Reviewed by Robert Batemarco

"We see so far because we stand on the shoulders of giants." In a nutshell, this is the major lesson to be learned from *The Conservative Intellectual Movement in America: Since 1945* by George Nash. First published 20 years ago, this tome breathes life into those "giants of conservatism" and the battles they waged not only against the dark forces of leftism, but at times against one another.

That the internecine struggles of conservatism occupy a large part of this book should come as no surprise, given that conservatism was less a coherent movement than a coalition of three movements: libertarianism, traditionalism, and anticommunism. The Second World War had just finished giving each of them a pounding. To fight the war, governmental powers were swollen to unprecedented levels utterly inconsistently with libertarian notions of limited government; the ghastly carnage of that conflict shook the faith of many in the superiority of the Western tradition; and diplomatic intrigues plus the power vacuum caused by Germany's defeat left Stalin's Soviets the most powerful force in Europe.

Yet some thinkers saw these events not as a death knell, but rather as a wake-up call. The insight that the rise of totalitarianism was the logical conclusion of seemingly benign accretions of state power was the core message of Friedrich Hayek's *The Road to Serfdom*. Like the first crocus

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

when the snow still covers the ground, this book was a harbinger of future events. These included the founding of institutions as well as the proliferation of scholarship aimed at furthering the cause of freedom. Indeed, the Foundation for Economic Education and *The Freeman* loom large in this story and Nash devotes several pages to their early days. The contributions of Mises, Hazlitt, Rothbard, Röpke, and Friedman, among others, also receive their due.

If libertarians blamed the rise of big government for most ills of the twentieth century, traditionalists found greater fault in the realm of ideas. Richard Weaver, in his book *Ideas Have Consequences*, drew a straight line from William of Occam's fourteenth-century denial of the existence of universals to the twentieth century's moral relativism and denial of ultimate truth. Eric Voegelin, Leo Strauss, and Russell Kirk were other major contributors to this strand of conservative thought. While these thinkers berated libertarians for failing to venture beyond the realm of economics, the libertarians responded by accusing traditionalists of not *standing* for anything in a *principled* way. Frank Meyer sought to find common ground between traditionalist and libertarian camps by emphasizing "reason operating within tradition." Despite Meyer's efforts, however, the insistence of many traditionalists on using the state as a vehicle for the promotion of virtue kept them at odds with libertarians.

The third element of the amalgam known as conservatism were the cold warriors. The threat that communism posed to both limited government and traditional values was particularly obvious to those who had witnessed its depravity from the inside. It was from the ranks of those who could not answer in the negative the second half of the question, "are you now or have you ever been a communist?," such as Whittaker Chambers and James Burnham, that sprung the fiercest anti-communists. The conflict between the cold warriors and the libertarians arose over whether it was appropriate to jettison many American freedoms in order to preserve the rest from communism. Many libertarians correctly pointed out that this was a false dilemma. Fortunately, history proved them correct.

The Conservative Intellectual Movement in America: Since 1945 covers all this and much more. I found it a fascinating story and a great way for anyone taking an interest in conservative or libertarian ideas to get to know the key players. Political junkies be forewarned, however. You will find very little politics here: mainly discussions of the controversy over Senator Joseph McCarthy, the Warren Court's landmark decisions, and the states' rights aspects of the civil rights movement. This book's forte is ideas—their origins, connections, and consequences.

Having read the first edition of this book 20 years ago, I got even more out of it the second time around. However, a major disappointment was finding that to deal with the important events of those two decades, the author could muster no more than a 13-page epilogue. While he manages to fit a lot into those 13 pages, including the blossoming of right-wing think tanks, the impact of neoconservatism on the movement and the paleoconservative response, and the rise of the Religious Right, his discussion of paleolibertarianism was skimpy. He also all but ignores the impact of talk radio, an end run around the liberal-dominated news media that, while not originating new conservative ideas, played a major role in disseminating them. These lacunae notwithstanding, this book remains an authoritative source of information of those who have done so much to put liberalism on the defensive. □

Dr. Batemarco is director of analytics at a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York. He is book review editor of the Review of Austrian Economics.

The Young Entrepreneur's Guide To Starting and Running a Business

by Steve Mariotti

Times Business • 1996 • 322 pages • $15.00

Reviewed by Richard A. Cooper

Steve Mariotti was mugged twice—once by the hoodlums who beat him while jogging on the Lower East Side of Manhattan and then by the realization that these street punks were forgoing the greater returns possible by honest effort in business. Did this bookish financial analyst and export/import trader pack his bags and flee Manhattan for the relative peace of suburbia? No, he left his previous line of work and became a teacher in the New York City public schools. He volunteered for assignment to the worst schools. There he had another revelation.

Steve Mariotti's primer could just as easily have been called *The Beginner's Guide to Starting and Running a Business.* But it is called *The Young Entrepreneur's Guide to Starting and Running a*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Business for good reason. His focus has been on teaching entrepreneurship as a way of imparting both business principles and basic skills to young people, especially disadvantaged youth, including the poor and handicapped. Personal transformation and self-fulfillment of students were the originally unexpected side effects.

Mariotti discovered that he could grab the attention of students, even those labeled "borderline retarded" when he talked about business and making money. "What had begun as an intuition slowly developed into a certainty: whenever I could manage to focus a lesson on some phase of entrepreneurial business, I had the students' attention. I began to do this consciously, using all my ingenuity to get across the bedrock principles of business: buy low, sell high; keep good records. I wanted these young people to appreciate the principles of free enterprise: (1) ownership and (2) honest relations with other human beings through the rational self-interest of voluntary trade."

With entrepreneurship in mind, Mariotti's students became interested in math, reading, and writing skills because they saw it benefited them. Instead of preaching or hectoring the students, Mariotti awakened the spark of recognition in them. Entrepreneurial education transformed the students' behavior as well as their academic outlook. Courtesy, deferred gratification, and conscious decision-making planted roots within them. He discovered that their tough lives gave them a "natural aptitude" for entrepreneurship. "I found that the negative characteristics of my students, when channeled into entrepreneurial activities, became positives."

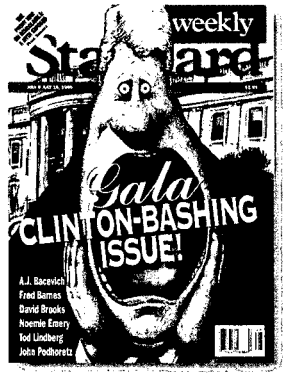
Given what we know about educational bureaucracies it comes as no surprise that Steve Mariotti is no longer a schoolteacher. He left the New York City school system and established the National Foundation for Teaching Entrepreneurship in 1988. Today, he is still president of NFTE (pronounced "nifty"). NFTE conducts classes in entrepreneurship in schools, both public and private, as well as through various youth programs. Mariotti is not just interested in helping people start business, but in also showing them the liberating implications of entrepreneurship and the free-market economy. He is quite frank about this being one of the purposes of NFTE.

Step by step Mariotti explains the key principles of entrepreneurship in practical, basic (sometimes a little too basic for my taste, having spent my adult life in business), and inspirational style. Examples are given of well-known entrepreneurs as well as NFTE graduates and their businesses. Some of the topics include negotiations, keystoning, market research, costing, accounting, banks, business plans, and so forth. Suggestions are made for businesses teenagers could start.

Whatever your role in society, you can benefit from reading *The Young Entrepreneur's Guide to Starting and Running a Business.* You will better understand what you or others can do to make yourself and society more educated and more prosperous. This entertaining and sometimes moving book tells the story of entrepreneurship as personal empowerment while also revealing the path that led Steve Mariotti to his life's work from number-cruncher to teacher in the worst public schools in New York to entrepreneurship missionary. □

Richard A. Cooper makes his living as an export-import manager while exploring ideas as a freelance writer.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



These can keep you informed. **Only this can keep you inside.**

The balance of power has shifted.

Conservative thought is now dominating the debate on Capitol Hill.

Isn't it time you started reading a magazine with a direct link to this power base?

The Weekly Standard.

The nation's only weekly journal of conservative opinion.

The most quoted, clipped, and talked-about magazine in Washington.

Your ticket inside the leading issues that shape our nation.

Edited by three of the most respected minds in political journalism today.

Bill Kristol, Fred Barnes and John Podhoretz have assembled a first-rate editorial team that includes prominent writers such as Charles Krauthammer, Brit Hume, P.J. O'Rourke, David Brooks, Andy Ferguson, and David Frum.

Quite simply, *The Weekly Standard* is driving the debate on Capitol Hill with analysis that is insightful, provocative, and very influential. Subscribe now and enter the inner circle of national politics.

Special No-Risk Offer: Receive 6 FREE issues!

Call 1-800-711-8383 now

and receive 6 issues of *The Weekly Standard* absolutely free.

If you agree that this magazine is an essential part of your reading list, you'll receive 26 more issues (a total of 32) for four monthly payments of only $9.99 each — a **SAVINGS OF 46%** off the newsstand price. If not, simply write "cancel" on the invoice, return it, and owe nothing. The six free issues are yours to keep.

the weekly **Standard** **JOIN US INSIDE.**

The Weekly Standard is published 50 times annually. Please allow 3-5 weeks for delivery of the first issue. Cover price is $2.95. Rates are good only in the U.S.A.

"*The Standard* is required reading

journalists."

— John McLaug

The McLaughlin

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

New from FEE !

SUBSURFACE WEALTH

The Struggle for Privatization in Argentina

By Guillermo M. Yeatts

In 1865, only seven years after the oil business was born in Titusville, Pennsylvania, the first attempt at oil exploration was made in the province of Jujuy, Argentina. In contrast with the extraordinary development and growth that the U.S. oil industry experienced, early attempts by oil pioneers in Argentina were met by a brick wall—public property of the subsurface and the resulting state intervention in the industry. In the United States, the prospect of striking oil fueled the dreams and guided the actions of thousands of landowners, investors, and independent prospectors. The oil business quickly expanded in the United States, bringing prosperity to apparently barren and desert areas. No development of this sort took place in Argentina. Public ownership of the subsurface discouraged all incentives for risk-taking, investment, and technological innovation. The regions with oil potential were doomed to oblivion and poverty; their inhabitants migrated to more prosperous areas.

This book exposes and analyzes the institutional framework that restrained the development of the oil industry in Argentina, and develops a proposal for radical change—giving surface owners title to the subsurface.

Guillermo M. Yeatts was born in Buenos Aires, Argentina, and obtained his B.S. in Finance and his M.A. in Economics from New York University. He has completed the OPM Program at Harvard University Graduate School of Business Administration in Cambridge, Massachusetts. He is presently the Chairman of Phoebus Energy Ltd., which controls Sol Petroléo S.A. in Buenos Aires, a refiner and marketer of oil products in Argentina. Mr. Yeatts is a founding member and a Director of ESEADE, Graduate School of Business Administration and Economics, established in Buenos Aires in 1978. He is a Trustee and member of the Board of Directors of the Northlands primary and secondary school in Buenos Aires, President of FEEL (Foundation for Energy Studies in Latin America), and member of New York University Business School Global Advisory Board.

Published by
The Foundation for Economic Education, Inc.
30 South Broadway, Irvington-on-Hudson, NY 10533

ISBN 1-57246-075-X • 232 pages • paperback $14.95
Visa and MasterCard orders: 1-800-452-3518

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"The aim for which the successful entrepreneur wants to use his profits may well be to provide a hospital or an art gallery for his home town. But quite apart from the question of what he wants to do with his profits after he has earned them, he is led to benefit more people by aiming at the largest gain than he could if he concentrated on the satisfaction of the needs of known persons. He is led by the invisible hand of the market to bring the succour of modern conveniences to the poorest homes he does not even know."

—Friedrich A. Hayek
Law, Legislation and Liberty, Vol. 2

THE FOUNDATION FOR
ECONOMIC EDUCATION, INC.
30 South Broadway
Irvington-on-Hudson, NY 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED